



CONFLICTS OF INTEREST MANAGEMENT POLICY (COI)

Declaring and documenting Fedgroup's commitment to regulate, mitigate and manage conflicts of interest (COI) that may arise from time to time

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Policy owner:	Governance Committee
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Approved by:	All group entity boards
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Fedgroup recognises the value as well as the risks associated with the regulatory requirements pertaining to its activities. This Policy has been approved by the Board of Directors of Fedgroup who have duly authorised the signatories to this document.

Signed on behalf of the Board:

Authorised Signatory

Authorised Signatory

Date

Date

1. PREAMBLE

- 1.1 The purpose of this COI Policy is to formally document and declare Fedgroup's commitment to prevent, identify, mitigate, manage and disclose any conflicts of interest (COI) that may arise from time to time.

2. APPLICATION

- 2.1 This COI Policy is applicable to Fedgroup Financial Holdings Group as a designated controlling company of the insurance group including its subsidiaries, collectively referred to as "Fedgroup".

3. GOVERNANCE

- 3.1 Within the governance structures of Fedgroup, this COI Policy is owned, and its administration overseen, by the Governance Committee who shall include suitable agenda items (standing and otherwise) to attend to the matters assigned to the stakeholders herein.

4. DEFINITIONS

- 4.1 Please refer to the Definitions section in the Governance Handbook

GENERAL PRINCIPLES

5. INTRODUCTION

- 5.1 A COI is a situation that has the potential to undermine the impartiality of a person due to the possible clash between the person's self-interest and professional duties or responsibilities.

- 5.2 There are **four different types** of COI:

5.2.1 Actual COI

There is a real conflict between a person's professional duties and private interests.

5.2.2 Potential COI

A person has private interests that could conflict with their professional duties. There is a possibility that a conflict may arise in future and steps should be taken to mitigate the potential risk.

5.2.3 Perceived COI

Any third party could assume that a person's private interests could improperly influence their professional decisions or actions.

5.2.4 Conflict of duty

When a person is required to fulfil two or more roles which may actually or potentially be in conflict or can be perceived to be in conflict.

- 5.3 Fedgroup is committed to doing business in an honest and ethical manner while demonstrating the Fedgroup Values.

- 5.4 Fedgroup will ensure that all business relationships are founded on professional principles and that appropriate controls and procedures are implemented within Fedgroup to manage COI.

- 5.5 COI should as far as reasonably possible be avoided, but they are not always avoidable, in which case they must be managed and mitigated.

5.6 Considering COI, requires **three stages:**

- 5.6.1 Identification
- 5.6.2 Monitoring; and
- 5.6.3 Managing.

5.7 COI are identified, monitored and managed through the following measures:

5.7.1 **Assessment:**

The test to identify a COI is:

“Could anyone reasonably think that a person’s competing private interests’ conflict / appear to conflict / could potentially conflict in the future, with the person’s duty to act in the best interests of Fedgroup / our customers / our stakeholders?”

5.7.2 **Transparency:**

Customers and Stakeholders must be informed of the COI to ensure that any decision taken by them is on a fully informed basis and in full appreciation of the impact of the COI. Fedgroup believes in a culture of openness and disclosure of COI will be embraced and not ignored.

5.7.3 **Recusal:**

Where a Governance Structure needs to deliberate on and take a decision in respect of a matter, any member of the Governance Structure who has a COI should, (following disclosure of the COI), step away from the decision-making process and not vote on the matter.

5.7.4 **Independent of members**

Governance Structure should comprise of a minimum number of independent or non-executive members, to promote the objectivity of the Governance Structure. The presence of independent members allows the Governance Structure to proceed with decisions or actions despite one or more of its members having a COI.

5.7.5 **Ratification by shareholders:**

In the context of company law, where the Beneficiary is the company, the principle is that the COI rules are ultimately for the benefit and protection of the company’s shareholders. If the company’s board did not fully comply with section 75 of the Companies Act (dealing with disclosure of directors’ PFI and subsequent recusal) the remedy is to refer the decision to the company’s shareholders for ratification, provided that the shareholders are fully informed about the PFI.

5.7.6 **Adoption of internal policies:**

This Policy is a measure to ensure that Fedgroup adopts and enforces internal policies which deal with COI.

5.7.7 **Refraining from acting altogether:**

Some COI are of such a material and universal nature that it renders it impossible, and potentially even illegal, for the conflicted individual to act in the particular set of circumstances. For example, if an Employee obtains Inside Information in the course of carrying out his/her functions, there is an outright prohibition on the Employee to deal in the relevant Securities for his/her personal account, save for certain narrow exceptions.

SPECIFIC AREAS OF LAW AND REGULATION

6. COMPANIES ACT

Duty to act in the company's best interests

- 6.1 Fedgroup's Officers hold a fiduciary position in relation to the company and must at all times-
 - 6.1.1 act in good faith, purposefully, and in the best interests of Fedgroup;
 - 6.1.2 exercise discretion in promoting the best interests of Fedgroup; and
 - 6.1.3 avoid a COI, or otherwise take appropriate steps to mitigate and manage a COI.
- 6.2 The duty to avoid a COI from a company law perspective broadly requires the following:
 - 6.2.1 **Decision-making by a Governance Structure,**
There is a duty on members of Governance Structures to disclose a COI, and if the COI is sufficiently material, the conflicted members must recuse themselves from the deliberations and not vote on the matters as further detailed below.
 - 6.2.2 **An Officer must not appropriate corporate opportunities of the company.**
Officers must pursue all corporate opportunities in the best interest of Fedgroup and not exploit the opportunity for personal gain.

Section 75 of the Companies Act and Personal Financial Interests (PFI)

- 6.3 Section 75 of the Companies Act regulates the situation where directors or their Related Persons have a PFI in a matter being deliberated by the board.
- 6.4 Although section 75 only technically applies to board meetings, as a matter of policy and best corporate governance Fedgroup will apply the same principles to subcommittee meetings as well.
- 6.5 The following family members would be a Related Party to the director:
 - 6.5.1 Spouse;
 - 6.5.2 Siblings;
 - 6.5.3 Parents;
 - 6.5.4 Grandparents;
 - 6.5.5 Grandchildren; and
 - 6.5.6 Spouse's siblings and parents.
- 6.6 Section 75 is concerned with a "material" financial interest held by the director or Related Person which refers to a financial interest which is significant in the circumstances of a particular matter, to a degree that is of consequence in determining the matter; or might reasonably affect a person's judgement or decision-making in the matter.
- 6.7 If the board did not follow the requirements of section 75, the decision may be ratified by the company's shareholders by ordinary resolution.
- 6.8 Directors may make general disclosure to the company regarding interests, such as directorships and shareholdings, that they have in other entities. However, this does not derogate from the director's duty to specifically disclose to the board when a COI arises in respect of the particular decision being taken by the board.

Corporate opportunities

- 6.9 The corporate opportunity rule prohibits Officers from exploiting any contract, information, or other opportunity that properly belongs to Fedgroup.
- 6.10 Since the opportunity belongs to Fedgroup, it is a breach of fiduciary duty for Officers to divert the opportunity for themselves.
- 6.11 A "corporate opportunity" is one that Fedgroup was actively pursuing or one that can be said to fall within Fedgroup 's existing or prospective business activities, or that is related to the operations of Fedgroup, within the scope of its business or that falls within its line of business.
- 6.12 Importantly, it is of no consequence that the opportunity would not or could not have been taken up by Fedgroup – the opportunity would remain a corporate opportunity.
- 6.13 The consequence of an Officer exploiting or diverting a corporate opportunity is that Fedgroup may have a damages claim against the Officer.
- 6.14 An Officer may only pursue a corporate opportunity with the informed consent of Fedgroup 's disinterested board of directors.
- 6.15 It is also a breach of an Officer's fiduciary duty to resign from Fedgroup with the aim of exploiting a corporate opportunity.

Nominee directors

- 6.16 A director may have been nominated or appointed to the board of a subsidiary or investee company by a particular shareholder.
- 6.17 Whilst the reasonable expectation is that the nominee directors represent the interests of the constituency that nominated or appointed them, nominee directors must be mindful of the following company law principles:
 - 6.17.1 Nominee directors' fiduciary duties are no different to any other director, and accordingly their duties are owed to the subsidiary / investee company;
 - 6.17.2 Accordingly, nominee directors must always act in and promote the subsidiary / investee's best interests, and cannot allow the shareholder's interests to override;
 - 6.17.3 Nominee directors owe a fiduciary duty to the subsidiary/ investee to maintain strict confidentiality of any commercially sensitive information, including board packs, trade secrets, and management accounts, and cannot pass this on to the shareholder unless the consent of the subsidiary's/ investee's board is obtained. Nominee directors must have regard to any information-sharing policies adopted by the subsidiary/ investee.

7. FINANCIAL MARKETS ACT (FMA)

- 7.1 In course of their professional activities Employees may come into possession of Inside Information. A COI may arise when Employees may be tempted to use the Inside Information for purposes of personal trading in Securities.
- 7.2 The purpose of this section of the Policy is to set out a basic summary of the legal provisions applicable to dealings in Securities.

General principles: Insider trading

- 7.3 Sections 77 and 78 of the FMA contain prohibitions on insider trading of Securities listed on an exchange. The provisions of the FMA apply to any insider, whether an Officer, Employee, or otherwise.
- 7.4 "**Inside Information**", is specific or precise information, which has not been made public and which is obtained or learned as an insider, and if it were made public would be likely to have a material effect on the price or value of any Security listed on a regulated market. The criteria for Inside Information are essentially that it is non-public, specific, price-sensitive, and is obtained by virtue of some connection with the listed company or from a person who has such a connection.
- 7.5 An "**insider**" is a person who has inside information through being a director, employee or shareholder of an issuer of Securities listed on a regulated market to which the Inside Information relates or having access to such information by virtue of employment, office or profession; or where such person knows that the direct or indirect source of the information was a person contemplated above.
- 7.6 Under section 78 of the FMA an insider is prohibited from dealing in the listed Securities, it is a criminal offence to do so, and there are statutory civil liability provisions and fines in the FMA for insider trading. The mere knowledge that one has Inside Information triggers the prohibition - it does not matter whether or not one is dealing on the basis of such information. In other words, it is not a defence to say that the Inside Information did not influence the way that the insider dealt in the listed Securities.
- 7.7 It is also an offence, under section 78 of the FMA, to disclose Inside Information to a third party unless this is required by virtue of one's employment or office and such disclosure is not connected to trading in the listed Securities, and at the same time the third party was made aware that the information is Inside Information. If someone possesses Inside Information, it is also an offence for that person to encourage or discourage a third party from dealing in the listed Securities. It does not matter whether a trade subsequently occurred.
- 7.8 With regard to "materiality", ultimately it is a "reasonable investor test": i.e., would the information influence the decisions of a reasonable shareholder/ investor?

Inside Information and price sensitivity

- 7.9 Information is considered to be "Inside Information" based on whether its importance and size qualify it as being price sensitive information and there needs to be "reasonable certainty" that a transaction or corporate action will be affected.
- 7.10 If the publication of the information would be likely to have an equal to or greater than 5% effect on the listed Security price. then the information is price sensitive information for purposes of this Policy. However, if the information is considered to be important enough it can still be regarded as "material".
- 7.11 The methodology for determining when information is price sensitive information comprises of two elements namely, "specific or precise" and "material effect".
- 7.11.1 Precise or specific information indicates a set of circumstances or an event which exists or may reasonably be expected to come into existence.
- 7.11.2 With regard to material effect, the test should be used in order to establish whether the information is likely to have an effect on the company Securities' price or value. In terms of the test, information is material if a reasonable investor is likely to consider it significant in making an investment decision.

7.12 Consideration should be given to whether the information in question has the potential to influence the economic decisions of investors in relation to the company's Securities. Information that has the potential to influence the economic decisions of investors includes its: assets and liabilities; performance or expected performance; financial condition; course of business; major new business developments; and information previously disclosed to the market.

8. INSURANCE ACT

COI requirements in terms of the Prudential standards

8.1 An Insurer must be operated in the interests of policyholders.

8.2 The Prudential Standards require that this Policy include –

8.2.1 measures to protect the interests of policyholders

8.2.2 measures for the avoidance of COI, and where avoidance is not possible, the measures for the identification, mitigation and management of such COI;

8.2.3 measures for the disclosure of COI;

8.3 This Policy and the other policies within the Governance Handbook addresses the COI requirements in terms of the prudential standards.

9. FINANCIAL ADVISORY AND INTERMEDIARY SERVICES ACT (FAIS)

9.1 This section sets out principles regarding adherence to the COI principles under the FAIS Act and FAIS Code.

COI in the context of FAIS

9.2 In relation to the rendering of a financial service to a customer, a COI is any situation in which an FSP or a Representative has an actual or potential interest that may –

9.2.1 influence the objective performance of the FSP or Representative's obligations to that customer;

9.2.2 prevent an FSP or Representative from rendering an unbiased and fair financial service to that customer;

9.2.3 prevent a provider or Representative from acting in the interests of that customer. Such interests include, but are not limited to –

9.2.3.1 a Financial Interest;

9.2.3.2 an Ownership Interest;

9.2.3.3 any relationship with a Third Party.

9.3 COI within this context relates to items of value that Fedgroup can provide to or receive from our FSP partners and brokers. This is commonly referred to as the "**R1 000 per annum COI limitation**".

9.4 The term "items of value" refers to anything where a monetary value can be attributed e.g., food, beverages, sports tickets, cash, entertainment, gifts, vouchers, hospitality, consulting services etc.

Permitted Financial Interest

9.5 An FSP may only receive the following Financial Interests:

9.5.1 Commission authorised in terms of legislation,

9.5.2 Fees authorised in terms of legislation, if those fees are commensurate to a service being rendered;

9.5.3 Fees charged for a financial service and for which the commission referred to above is not paid:

9.5.3.1 The amount, frequency, payment method, and recipient of those fees and details of the services that are to be provided by the provider or its Representatives in exchange for the fees are specifically agreed to by the customer in writing;

9.5.3.2 Those fees may be stopped at the discretion of the customer;

9.5.3.3 Fees or remuneration for a service to a Third Party is reasonable compensation for that service;

9.5.3.4 Fees or remuneration for the rendering of a service to a Third Party are commensurate to the service being rendered.

9.6 Any other Financial Interest in cash or cash equivalent is not permitted. Details of all Immaterial Financial Interests (gifts) received must be declared to management and will be recorded in the gift register.

9.7 It is strictly prohibited for an Employee or other Stakeholder to directly or indirectly solicit a gift, entertainment, or benefit from any customer, counterparty, supplier, or business related third party, either for the benefit of themselves or for the benefit of other Employees or Stakeholders.

Non-permitted financial interest

9.8 A FSP may not offer any Financial Interest to a Representative of that provider:

9.8.1 that is determined with reference, giving preference to the quantity of business secured for the provider without giving due regard to the exclusion of the quality of the service rendered to delivery of fair outcomes for customers;

9.8.2 for giving preference to a specific product supplier, where a Representative may recommend more than one product supplier to a customer; or

9.8.3 for 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 customer.

9.9 It is specifically recorded that the only financial interests that any Representative or key individual of Fedgroup will be entitled to is the remuneration disclosed in each employee's service contract. Fedgroup will ensure that it will only recommend the in-house solutions where this is in the interests of the customer.

Approach to the management of FAIS COI

Mandatory disclosures

9.10 A COI in respect of a customer must be disclosed to that customer in writing in the format prescribed in Annexure A. This disclosure must include the following:

9.10.1 What has been done to avoid or mitigate the conflict;

9.10.2 Any Ownership Interest or Financial Interest that Fedgroup or a Representative may be eligible for or become eligible for;

9.10.3 Details about any relationship with a Third Party that gives rise to a COI. The details must be sufficient to enable the customer to understand the exact nature of the relationship or arrangement and the extent of the COI.

9.10.4 The existence of any personal interest in the relevant service, or of any circumstance which gives rise to an actual or potential COI in relation to such

service, and shall take all reasonable steps to ensure fair treatment of the customer;

Undertakings

- 9.11 Representatives are required to undertake to:
- 9.11.1 avoid and where this is not possible, mitigate any COI between the Representative and a customer.
 - 9.11.2 to disclose to a customer in writing at the earliest reasonable opportunity:
 - 9.11.2.1 any COI in respect of that customer, including the measures taken in accordance with this Policy to avoid or mitigate the conflict;
 - 9.11.2.2 any Ownership Interest or Financial Interest, other than an Immaterial Financial Interest, that the employer or Representative may be or become eligible for;
 - 9.11.2.3 the nature of any relationship or arrangement with a Third Party that gives rise to a COI, in sufficient detail to enable the customer to understand the exact nature of the relationship or arrangement and COI; and
 - 9.11.3 to inform the customer of the employer's COI management policy and how it may be accessed.

Notifications

- 9.12 All Key Individuals and Representatives are required to complete a notification detailing:
- 9.12.1 any COI situation that may arise during day-to-day operations. These notifications will be recorded on the central COI Register, together with an analysis of the implications of the situation to determine the most appropriate actions required to effectively manage the COI;
 - 9.12.1.2 any Immaterial Financial Interest received. These notifications will be recorded and stored on the central COI Register, and the implications of the situation will be analysed to determine the most appropriate actions required to effectively manage the conflict;
 - 9.12.1.3 A bi-annual declaration conflict of interest form, disclosing any association or relationship they may have with a Third Party that may result in an actual or perceived conflict.

Training

- 9.13 Awareness training provides management and staff with a greater understanding of the training requirements within Fedgroup.
- 9.14 The training material will be made available to management and staff;

Principles with regards to the management of FAIS COI

- 9.15 The following Principles apply to FAIS COI management and are further detailed in Schedule 1:

Principle 1: Applicability of COI spend limitations

Principle 2: Recording of transactions

Principle 3: COI limitation amounts

Principle 4: FSP license limitations

Principle 5: Business courtesies

Principle 6: Training activities

Principle 7: Outsourcing

Principle 8: Reciprocal arrangements

Principle 9: Marketing, advertising and sponsorships

Principle 10: Commemorative gifts

Principle 11: Joint ventures

Principle 12: Judgement and consultation.

List of associates and information pertaining to ownership interest

9.16 The list is maintained by the company secretary and is available upon request.

10. PENSION FUNDS ACT AND TRUST PROPERTY CONTROL ACT

10.1 Trustees (appointed on either retirement funds or trusts) are expected to perform their duties conscientiously, honestly, and in accordance with the best interests of the Trust or Retirement Fund and its beneficiaries / members.

10.2 Trustees are bound by the general legal principles applicable in the law and in particular the duty to avoid or manage a COI. The overriding principle is that trustees should act in the best interests of members of a retirement fund or beneficiaries of a trust and disclose any COI.

COI management applicable to Trustees

10.3 Trustees should:

10.3.1 implement procedures for evaluating and managing COI that have been identified in a way that ensures that decisions are not compromised by the conflicted trustee(s);

10.3.2 clearly detail, in the minutes of the trustee meeting, conflicts which may arise during a decision-making process and the action taken to manage the conflict;

10.3.3 seriously consider seeking independent legal advice where a non-trivial COI is identified and where such a conflict could have the potential to be detrimental to the conduct or decisions taken by the trustees, in order to help decide the best approach to manage or avoid it;

10.3.4 be aware that some COI, due to their acute or pervasive nature, cannot be managed – they may determine that resignation and appointment of an independent trustee is the only option;

10.3.5 understand that this Policy cannot give guidance appropriate for every trust or retirement fund as this depends on the nature of the COI and the trust deed or retirement fund's rules.

10.4 Trustees must:

10.4.1 strive to avoid even the appearance of impropriety. Outside duties or responsibilities should not influence decisions because the trustee acts primarily for the beneficiaries and participants of the plan;

10.4.2 take great care to put their duties to the retirement fund before their loyalty to the sponsoring entity that appointed them (such as a company sponsor).

10.4.3 not solicit political contributions from service providers to the plan, either personally or on behalf of another;

10.4.4 not allow political interests, philosophy, or political party loyalty to influence decisions made on behalf of the trust or retirement fund.

- 10.4.5 not put themselves in a position where their interests and the interests of the trust or retirement fund conflict. Trustees who also are retirement fund members or beneficiaries of the trusts should take precautions to avoid any personal profit at the expense of the trust or retirement fund;
 - 10.4.6 not use the prestige or influence of their position for private gain or advantage;
 - 10.4.7 avoid any employment or contractual relationship with, or any interest in, firms that provide services to the trust or retirement fund;
 - 10.4.8 not be involved in any retention or termination decisions or otherwise vote on matters related to the trustees' firms;
 - 10.4.9 refuse any gift or benefit that could reasonably be expected to affect their independence, objectivity, or loyalty;
 - 10.4.10 not receive or accept, directly or indirectly, any gift, service, favour, entertainment, or any other thing of value from anyone currently engaged by or seeking business from the trust or retirement fund if it could reasonably be expected to influence a decision or be considered a reward.
- 10.5 If COI can't be avoided, Trustees will take appropriate measures to deal with and manage the COI, such as:
- 10.5.1 disclosing all real or perceived COI;
 - 10.5.2 abstaining from a vote or excluding themselves from any deliberations in which they are in direct conflict;
 - 10.5.3 ensuring that the trust or retirement fund has procedures in place to manage and disclose any such conflicts;
 - 10.5.4 documenting and disclosing to the trust or retirement fund the acceptance of any gift or entertainment.
- 10.6 Regarding service provider appointments by trustees, trustees should:
- 10.6.1 actively manage their relations with service providers to ensure that the providers can provide independent services;
 - 10.6.2 require their providers to declare any conflicts that may arise in respect of their engagement on a timely basis;
 - 10.6.3 consider in advance whether conflicts make it undesirable for a particular provider to be appointed or continue to act for them, in circumstances where a conflict with the sponsoring employer may arise;
 - 10.6.4 evaluate the nature of the conflict, where a conflict has been declared, and determine an appropriate course of action.

Directive 8 – Pension Funds Act

- 10.7 Directive 8 aims to assist in combatting and preventing corruption and corrupt activities in the retirement fund industry.

Training

- 10.8 Directive 8 intends to prevent corruption and corrupt activities from being perpetrated under the guise of training.
- 10.9 In order to strike a balance by still supporting genuine training of board members while prohibiting corruption and corrupt activities, it is preferred that all costs for the training, travel, and accommodation be paid for by that retirement fund. In instances where training is offered for free by a service provider to that retirement fund, the fund should at least bear the costs relating to the training (e.g., traveling and accommodation costs) but excluding those of the actual training.
- 10.10 Where a service provider intends to provide training or to present topics relevant to the retirement fund industry at no cost, which may also include refreshments and beverages, such an event must be open for registration to the general public or to a general category of persons.

- 10.11 The actual costs of such training, whether paid by the fund or offered for free by the service provider, must still be reasonably justifiable.

Business related meals and similar considerations

- 10.12 It is not impermissible under Directive 8 for a service provider to pay for business related meals provided that such meals are legitimately for the purpose of conducting the business of the fund. Such activities should however be kept to the minimum level necessary to maintain effective business relationships and should not be exorbitant.
- 10.13 Retirement fund officers are required to declare any business meals paid for by a service provider in the fund's gift register, which must include the value of such meals.

Entertainment

- 10.14 Retirement fund officers may not accept invitations to entertainment events paid for by service providers. This includes, but is not limited to, breakfasts, lunches, dinners, coffee, drinks, sporting events, hunting, jazz festivals, and concerts.
- 10.15 Service providers must act responsibly and not attempt to justify an entertainment event as a legitimate event in order to circumvent the provisions of Directive 8. Concomitantly, it is expected of retirement fund officers to apply their minds as to whether an invitation to an event is for a legitimate purpose or actually for the purposes of providing entertainment.

Token gifts

- 10.16 Token gifts are gifts usually given at year end which may include pens, diaries, desk calendars, calendars, mugs, and other indulgences such as chocolates, biscuits, or beverages which is a token of goodwill. The annual limit from any one service provider is R500.00.
- 10.17 The purpose of limiting the amount is to prohibit a concession for goodwill to be converted into situations of COI, corruption, and corrupt activities.

Due diligence and other retirement fund related activities

- 10.18 If it is necessary for a retirement fund officer to conduct a due diligence or other fund related activity then all costs related to such due diligence or activity, including travel and accommodation, must be borne by the retirement fund. A service provider is not permitted to pay for such costs.
- 10.19 A due diligence or any fund related activity should not be an excuse for a retirement fund officer to go on a holiday at the expense of the retirement fund, and boards of retirement funds must exercise their discretion sparingly after proper motivation has been given for the due diligence or activity. This should include consideration of the number of officer(s) required to attend to the due diligence or activity and if the relevant officer(s) concerned possess the necessary skill and experience to conduct the due diligence or fund related activity.
- 10.20 After due diligence or related activity has been conducted, the retirement fund officer(s) concerned should produce a written report to the board.

Sponsored Funds

- 10.21 Directive 8 permits sponsor appointed trustees to be remunerated by the sponsor of a retirement fund and this includes trustees appointed in terms of section 26(2) of the Pension Funds Act. Such remuneration will be interpreted to include board of fund expenses.

Gratification which is objectively viewed creates a COI

- 10.22 As far as is reasonably possible, a retirement fund should bear its own expenses unless circumstances dictate otherwise and objectively viewed no COI is created. Substance will take precedence over form in all such cases.
- 10.23 Where a section 26(2) trustee is appointed to a dormant fund and the section 13B administrator pays the expenses for the cancellation or liquidation of the retirement fund because the fund has either little or no assets of its own, this will not constitute a breach of Directive 8.
- 10.24 In an underwritten fund, the payment of board of fund expenses by the administrator does not objectively create a COI and would not be a breach of Directive 8. This does not mean that the board of such funds will not be expected to exercise their minds independently and fulfil their objects and duties as required in applicable legislation.
- 10.25 Where a retirement fund officer has an interest in a service provider to the retirement fund concerned, and there are no circumstances that dictate that the retirement fund cannot reasonably appoint another service provider, this will constitute a breach of Directive 8. As an example, the principal officer or trustee of a retirement fund may not also be a director or employee of the law firm appointed by the retirement fund for legal services. Objectively viewed this would create an avoidable COI.

11. COLLECTIVE INVESTMENT SCHEMES CONTROL ACT (CISCA)

CIS specific COI management

- 11.1 A CIS must be operated in the interests of investors.
- 11.2 The CIS Standard requires that this Policy must include –
- 11.2.1 mechanisms for the identification of COI in the context of CIS management;
 - 11.2.2 the circumstances which constitute or may give rise to a COI;
 - 11.2.3 measures for the avoidance of COI, and where avoidance is not possible, the reasons therefore and the measures for the mitigation of such COI;
 - 11.2.4 measures for the disclosure of COI;
 - 11.2.5 processes, procedures and controls to facilitate compliance with the Policy;
 - 11.2.6 consequences of non-compliance with the Policy;
 - 11.2.7 where the CIS Manager is a member of a group, any circumstances of which the manager is or should be aware of which may give rise to COI resulting from the structure and business activities of other members of the group.

Identifying and contextualising potential COI in the CIS Manager's scope of activities

- 11.3 A CIS could be used to provide benefits for those in an insider relationship with the CIS, such as an operator, investment manager, or distributor, at the expense of investors in the CIS. It is important that the CIS Manager appreciates the contexts in which COI arise in relation to its activities.
- 11.4 Refer to schedule 1 for examples of COI relating to CIS activities.

Measures to avoid and manage COI in CIS environment

- 11.5 In accordance with the CIS Standard, the CIS Manager shall on a continuing basis comply with the following principles:
- 11.5.1 For purposes of identifying the types of COI that arise in the course of providing services and activities and whose existence may damage the interests of a scheme or portfolio, CIS Managers must take into account, by way of minimum criteria, the question of whether the CIS Manager or a relevant person, or a person directly or indirectly linked by way of control to

the CIS Manager, is in any of the following situations, whether as a result of providing portfolio management activities or otherwise:

- 11.5.1.1 the CIS Manager or that person is likely to make a financial gain, or avoid a financial loss, at the expense of the scheme or portfolio;
- 11.5.1.2 the CIS Manager or that person has an interest in the outcome of a service, or an activity provided to the scheme or portfolio or another client or of a transaction carried out on behalf of the scheme or portfolio or another client, which is distinct from the scheme or portfolio interest in the outcome;
- 11.5.1.3 the CIS Manager or that person has a financial or other incentive to favour the interest of another client or group of clients over the interests of the scheme or portfolio;
- 11.5.1.4 the CIS Manager or that person receives or will receive from a person other than the scheme an inducement in relation to portfolio management activities provided to the scheme or portfolio, in the form of monies, goods or services, other than the standard commission or fee for that service.

11.5.2 The procedures and the measures set out in this part **Error! Reference source not found.** are designed to ensure that relevant persons engaged in different business activities involving a COI carry on those activities at a level of independence appropriate to the size and activities of the CIS Manager and of the group to which it belongs and to the materiality of the risk of damage to the interests of investors.

11.6 The CIS Manger shall –

- 11.6.1 prevent or control the exchange of information between relevant persons engaged in portfolio management activities involving a risk of a COI where the exchange of that information may harm the interests of one or more investors;
- 11.6.2 ensure that there is separate supervision of relevant persons whose principal functions involve carrying out portfolio management activities on behalf of, or providing services to, clients or to investors whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the CIS Manager;
- 11.6.3 remove any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenues generated by, different relevant persons principally engaged in another activity, where a COI may arise in relation to those activities;
- 11.6.4 prevent or limit any person from exercising inappropriate influence over the way in which a relevant person carries out portfolio management activities;
- 11.6.5 control the simultaneous or sequential involvement of a relevant person in separate portfolio management activities where such involvement may impair the proper management of COI.

11.7 The CIS Manager will keep and regularly update a record of the types of portfolio management activities undertaken by or on behalf of the CIS Manager in which a COI entailing a material risk of damage to the interests of one or more portfolio or other clients has arisen or, in the case of an ongoing portfolio management activity, may arise.

11.8 Where the organisational or administrative arrangements made by a CIS Manager for the management of COI are not sufficient to ensure with reasonable confidence that risks of damage to the interests of the scheme or portfolio or of its investors will be prevented, the board of the CIS Manager will be promptly informed to ensure that the necessary decision is taken to ensure that the CIS Manager acts in the best interests of the scheme and its investors.

12. TREATING CUSTOMERS FAIRLY

- 12.1 Our customers are our top priority (“Putting People 1st”) and this COI Policy will be applied in conjunction with the TCF Policy and all other policies within the Governance Handbook.

13. COMMITMENT TO COMPLIANCE

- 13.1 Fedgroup developed, documented, and will maintain and implement this policy to ensure COI Management.
- 13.2 The Boards of Directors of Fedgroup will ensure compliance with the provisions of this policy.
- 13.3 The GRC Function of Fedgroup will assist the Boards of Directors in discharging their obligations under the policy and Fedgroup will assign persons with sufficient competence and seniority to ensure the effectiveness of the policy and compliance by the employees of Fedgroup.
- 13.4 Employees must disclose business interests that may be in conflict with the business or interests of Fedgroup. Non-disclosure of a COI will result in disciplinary action against the employee who failed to make the disclosure.
- 13.5 All employees must report a perceived or actual COI to their direct line manager or any senior manager in their business unit. If an employee cannot report the conflict to his or her line manager or a senior manager in their business unit, the employee may report the conflict to the HR or GRC Departments.
- 13.6 All instances of non-compliance must be reported in line with the applicable Integrity Framework Policy and process.

14. CONSEQUENCES OF NON-COMPLIANCE

- 14.1 Any failure by an employee, representative, company officer or any other person to who this policy applies to comply with the requirements of this COI Policy shall result in the employee being subject to disciplinary action and possible dismissal or removal from their position.
- 14.2 All instances of non-compliance with this COI Policy will be included in the regular compliance reporting processes.

15. TRAINING

- 15.1 Fedgroup will provide ongoing training to its employees to enable their compliance with the provisions of this Policy. All employees and other stakeholders of Fedgroup whether permanent or part-time, will receive proportionate training necessary to their job function.

16. POLICY REVIEW

- 16.1 This Policy will undergo a review on an annual basis to ensure that the policy and procedures remain relevant to Fedgroup’s operations and the achievement of the purpose of the policy.

16.2 Any relevant ad-hoc event within the scope of this policy e.g., change in regulation or operational requirements, identification of an inadequacy of any element of this policy etc. will prompt a review of this policy as and when required.

SCHEDULE 1 - PRACTICAL TRAINING & EXAMPLE MANUAL

1. GENERAL

- 1.1 Fedgroup is committed to doing business in an honest and ethical manner, and as a good corporate citizen while demonstrating the Fedgroup Values.
- 1.2 Fedgroup also recognises the need to make sure that all business relationships within the Group are founded on professional principles and that the relationships are kept at arm's length and further recognises its obligation to see to it that appropriate controls and procedures are implemented within Fedgroup. These controls and procedures will help us ensure compliance with regulatory requirements and enhance our culture of compliance.
- 1.3 COI should as far as reasonably possible be avoided, but they are not always avoidable, in which case they must be managed and mitigated.
- 1.4 When referring to a COI one is generally concerned only with a conflict which is real and material as opposed to tenuous, immaterial and/or tangential conflicts. The alleged COI must be of a nature which an outsider would regard as being sufficiently direct and material in such a manner that the person would be reasonably tempted to promote their own interest above that of the Beneficiary's.
- 1.5 If any Employees or Officers are in doubt whether a COI meets this threshold, they must exercise caution and rather proceed on the basis that the COI is sufficiently direct and material and requires that the procedures in this Policy are followed.
- 1.6 The test to apply before you are providing any services to a customer and during the relationship, is to ask:
 - 1.6.1 Are my interests and those of Fedgroup aligned with the customer's needs?
 - 1.6.2 Am I acting independently, objectively and professionally towards the customer?
 - 1.6.3 Am I acting in the customer's interests or mainly in my own interest or Fedgroup's or someone else's?
- 1.7 All COI must be disclosed and will be detailed in the COI register maintained by the GRC Department.

2. COMPANIES ACT

- 2.1 Section 75 of the Companies Act regulates the situation where directors or their Related Persons have a PFI in a matter being deliberated by the board.
- 2.2 Section 75 applies in the following example:
 - i. Fedgroup's board is deciding on whether to conclude a material transaction or contract with Company XYZ, such as a financial assistance transaction, and a director of Fedgroup is also an Officer of company XYZ.
 - ii. Because the Fedgroup director owes a fiduciary duty to both Fedgroup and XYZ, his/her loyalties are potentially divided, and he/she must accordingly disclose that PFI namely that he/she is an Officer of XYZ and recuse himself/herself from the deliberations of the respective boards.
 - iii. The above would also apply if the director has a shareholding in XYZ which is material to his/her personal wealth.
 - iv. Not only the director's PFI are relevant, but also where a close family member has a PFI.

- 2.3 Directors may make an annual general disclosure to the company regarding interests, such as directorships and shareholdings, that they have in other entities. However, this does not derogate from the director's duty to specifically disclose to the board meeting when a COI arises in respect of the particular decision being taken by the board. For example:
- i. Director A may make an annual general disclosure to Fedgroup that he/she is also a director or shareholder of company Y.
 - ii. The board of Fedgroup is deliberating on a matter which could have a direct and material financial impact on company Z.
 - iii. Unbeknownst to the board of Fedgroup, company Y happens to be a material shareholder in company Z.
 - iv. Even though director A has made a general, up-front disclosure that he/she has an interest in company Y, company Fedgroup's board will not appreciate the significance of this in the particular context, because as far as company Fedgroup is concerned it is dealing with company Z.
 - v. Thus, it is incumbent on director A to give company Fedgroup's board the full picture and context of his/her COI as is applicable and relevant to the specific facts of the case. The general disclosure will not of itself suffice.
 - vi. Given the degree of commonality of directors between a number of the companies in Fedgroup, section 75 of the Companies Act will be relevant when those companies transact with each other or take decisions which may have a direct, material financial impact on another Group company.

3. FAIS

- 3.1 The FAIS Act provides for penalties if a person is found guilty of contravening the Act, or of non-compliance with the provisions of the Act.
- 3.2 The penalty for non-compliance of specific provisions of the Act, is an amount of up to R1 million or a period of imprisonment for up to 10 years.
- 3.3 The entities listed below are responsible for maintaining the central FAIS COI Register and the process of disclosure of interests. These entities must review the content of these registers every year.
- i. Fedgroup Asset Management (665)
 - ii. Fedgroup Trust Administrators (16302)
 - iii. Fedgroup Life (40607)
 - iv. Fedgroup Financial Services (45563)
- 3.4 The following Principles apply to FAIS COI management and are demonstrated by practical example where applicable:

Principle 1: Applicability of COI limitations

Spend limitations apply only to transactions between the following:

- i. Fedgroup and natural persons who are either registered FAIS Representatives, key individuals or a sole proprietor. The limitation also applies to Associates of these natural persons like a spouse, children and parents.
- ii. Fedgroup and natural persons who are Associates of our FSP partners and brokers. These Associates are persons from whom the board of the FSP partner or broker would ordinarily take instructions and obey them, e.g., a majority shareholder.

- iii. Fedgroup and an FSP partner or broker, where the item of value is not given with the intention of benefitting specific individuals but rather the FSP partner or brokerage itself. Note the specific exemption to this point set out under Principle 10 regarding commemorative gifts.

Receipt limitations apply to transactions between the following:

- i. FSP partner or broker (whether a juristic entity like a company or a sole proprietor) and a Fedgroup staff who is a registered FAIS Representative or key individual.
- ii. FSP partner or broker and Fedgroup, where the item of value is not given with the intention of benefitting specific individuals in Fedgroup but rather Fedgroup itself.
- iii. To accurately determine whether a transaction meets the COI applicability requirements, the spend or receipt must be reflected in the accounts for whom the benefit is intended. Fedgroup should therefore refrain from practices where a FSP partner or broker is compensated for costs they incur on Fedgroup's behalf as Fedgroup should always settle service providers directly.

The COI limitation applies irrespective of whether an expense was borne directly by Fedgroup or indirectly through an expense claim back or Employee allowance.

Any expense incurred by a Fedgroup staff or consultant in their personal capacity, and not claimed back or compensated for in any way, is not subject to COI limitation and therefore does not need to be recorded.

Principle 1 Examples:

The following are examples of where the COI limitations will not be applicable and require recording or not:

- i. A Fedgroup Managing Director (that is not a Representative or KI) has a meeting with the Managing Director of a business partner or brokerage (registered FSP) that stretches over lunch time and Fedgroup pays for the lunch. Provided that the manager is not a Representative or key individual of that FSP, the transaction is not subject to the COI limitations.
- ii. A Fedgroup key account manager (that is not a Representative or KI) visits a brokerage (registered FSP) during lunch time and provides snacks to the brokerage staff as a courtesy. The only person in the brokerage that is a FAIS Representative of the brokerage is their KI because all the Representatives are out doing business leaving 3 admin staff in the office. Only the value of snacks consumed by the KI is subject to the COI limitations and needs to be recorded.
- iii. A Fedgroup broker consultant (that is not a Representative or KI) meets a broker (a FAIS Representative or KI) at a restaurant and the broker pays for the refreshments consumed by the broker consultant. Provided the broker consultant is not a Representative or key individual the transaction is not subject to the COI limitations.
- iv. Fedgroup providing business consulting or similar services to a FSP partner or broker, where the FSP partner or broker pays Fedgroup for the services rendered, provided that the payment made by the FSP partner or broker should be commensurate with the costs incurred by Fedgroup to render the service.

Principle 2: Recording of transactions

Any items of value provided or received that are subject to the COI limitations must be captured on Fedgroup's central COI Register.

Principle 3: COI limitation amounts

For natural persons or FSP partners (who are juristic entities like brokerages) the items of value that can be offered or received cannot under any circumstances exceed **R1 000, per calendar year**. It is therefore important to check what is available to be spent/received on the COI Register, prior to the actual spend or receipt. Should it be found there is overspend or receipt, then that item of value exceeding

the R1 000 limit must be recovered or paid back. The actual spend/receipt amount to be logged in the COI Register needs to be the monetary amount of the item of value offered/received. Where it is not possible to determine the actual amount, any reasonable basis of calculation is permitted.

Principle 3 Examples:

Below are examples of calculated amounts that will be deemed reasonable:

- i. Fedgroup offers to pay for lunch for various Representatives of a brokerage at a restaurant. There are 11 persons at the table including the Fedgroup broker consultant and the 10 other persons are FAIS Representatives (brokers) from a brokerage. The total bill comes to R1485. Each person ordered a variety of meals, and it was not possible to individually ascertain the value of meals consumed by each Representative. As the 10 persons are Representatives, the amount Fedgroup spent on each person must be recorded in the COI Register. A reasonable way to determine the amount to be recorded for each person is to divide the total bill by the number of persons who consumed the meals, which also includes the Fedgroup broker consultant ($R1485/11=R135$), and then allocate this amount to the individual Representatives. So, in this scenario, there will be 10 individual entries in the COI Register, each to the value of R135.
- ii. A Fedgroup key individual (KI) receives a Carol Boyes spoon set from a broker. For the sake of courtesy, the KI is reluctant to ask the value of the gift. The KI instead searches for the value of the gift on the Carol Boyes website and uses the amount on the website as the value captured in the COI Register.

Principle 4: FSP license limitations

Fedgroup has 4 FAIS licenses, each with a separate R1 000 limitation. Any spend or receipt transactions must be recorded against the relevant Fedgroup FAIS license. For spend transactions "spenders" are only permitted to utilise the FAIS license if the partner currently supports Fedgroup on that applicable particular licence, or Fedgroup intends conducting business with the partner on that particular licence. "Spenders" that do conduct business with a partner under multiple licences and use the COI limit under multiple licenses must ensure that the financial entry must be logged against the specified FAIS license so that each of the relevant licensed entities actually shows the expense incurred on their license in their own financial accounts (i.e. if a spender spends more than R1 000 on one recipient, the expense must be split and reflected in the financial accounts of the relevant licensed entities).

Principle 4 Examples:

- i. A Fedgroup business unit deals with a broker partner on the Fedgroup Life FSP licence. The broker partner does not support Fedgroup for Beneficiary Care business, and there is no intent by Fedgroup to seek the support of the broker in relation to Beneficiary Care business. The business unit can therefore only utilise the one FAIS license (Fedgroup Life) to record the spend and is limited to a R1 000 spend limit on this broker partner under that licence.
- ii. In the above example, if this broker partner also supports Fedgroup for Beneficiary Care business or Fedgroup is in discussions with the partner with the intention of entering into a distribution agreement for Beneficiary Care business, then both the Beneficiary Care and Life FAIS license limits can be utilised and Fedgroup will be permitted to spend up to a maximum of R2 000 on that broker partner. At the end of the financial year there must be a demonstrable allocation of the portion applicable to the Life licence, which will either be in the form of a journal entry between the two licences, or the Life licence invoicing the Beneficiary Care licence for the amount spent, so the expense shows in their respective financial records.

Principle 5: Business courtesies

Generic business courtesies like parking and refreshments in the form of light meals and drinks that would ordinarily be offered to Fedgroup visitors attending operational business meetings during business hours are not subject to the COI limitations.

Principle 5 Examples:

Examples of instances that are subject to the COI limitation where the persons meet the principle 5 applicability requirements are:

- i. Broker/Partner celebrations; and
- ii. Any refreshment offered, where the FSP partner or broker visited Fedgroup or vice versa for purposes of entertainment rather than a business meeting.

Principle 6: Training activities

Training activities conducted by Fedgroup are not subject to the COI limitations provided the following requirements are met:

- i. The training is legitimate and not a cover for any other activity;
- ii. The training relates to Fedgroup products (e.g., product launches), general industry information or Fedgroup specific systems training;
- iii. The training is offered to all affected FSP partners (e.g., product specific training must be offered to all FSP partners who are contracted to sell that product); and
- iv. Own travel and accommodation costs for the training are paid for by the FSP partner themselves.
- v. Any training that does not meet the requirements above is subject to the COI limitation and must be recorded in the COI Register.

Principle 7: Outsourcing

From time to time Fedgroup chooses to outsource activities like binder functions and/or make equity investment in other FSPs in line with the applicable regulatory requirements.

Prior to agreeing terms with such a partner and during the course of the arrangement Fedgroup may conduct various oversight and monitoring activities to assess and manage its own risk exposure.

The risk exposure assessed and managed can be regulatory, conduct, operational etc. The governance activities conducted to manage the risk exposure are primarily for the benefit of Fedgroup and are not subject to COI limitations.

Any service of value offered to partners outside of what is intended in this principle will be subject to the COI limitation and needs to be recorded.

The Outsourcing Policy provides further information in this regard.

Principle 7 Examples:

Examples of partner related services or activities that are **not subject** to the COI limitations and in line with principle 7 are:

- i. Fedgroup assessing its own risk exposure prior to inception of an arrangement in the form of a due diligence;
- ii. Contracting terms and agreeing set standards;

- iii. Monitoring activities conducted by any internal or outsourced assurance provider to assess compliance with agreed standards;
- iv. Provision of information, documentation and templates for Fedgroup to comply with regulatory requirements and/or conduct standards like TCF.

Examples of partner related services or activities that **are subject** to the COI restrictions and therefore needs to be recorded in the COI Register and may not be provided in excess of the limitation are:

- i. General management consulting services; and
- ii. Website and logo designs on behalf of another FSP partner or broker.

Principle 8: Reciprocal arrangements

"Reciprocal arrangements", where persons referred to in Principle 2 take alternate turns to "pick up the tab" for items of value, are subject to the COI limitations and needs to be recorded in the COI Register in each instance as either a spend or receipt transaction.

Principle 9: Marketing, advertising and sponsorships

Marketing and advertising initiatives, including the provision of Fedgroup branded promotional items, which are done primarily for the benefit of Fedgroup and demonstrably communicates the Fedgroup brand proposition to a sufficiently wide audience are not subject to the COI limitations.

Examples of marketing, advertising and sponsorship activities that are **not subject** to the COI limitations and in line with principle 9 are:

- i. Providing promotional items like Fedgroup branded water bottles to attendees at a mass social event e.g., Botshabelo; and
- ii. Sponsorship of the golf competition where the Fedgroup brand is displayed on test vehicles and on media campaigns where the event is publicised.

Examples of marketing, advertising and sponsorship activities that **are subject** to the COI restrictions and therefore needs to be recorded in the COI Register and may not be provided in excess of the limitation are:

- i. Providing a FAIS Representatives within a brokerage with Fedgroup branded golf shirts as a birthday gifts; and
- ii. Providing the key individuals of a FSP partner Fedgroup branded golf sets because they are avid golfers.

Principle 10: Commemorative gifts to FSP partner entities with no resale value

Gifts provided to FSP partner entities that are bespoke and have no commercial resale value are not subject to the COI restrictions provided the following conditions are met:

- i. The gift is intended for the partner or brokerage itself and not specific individuals like KI's and FAIS Representatives within the partner;
- ii. The business unit must document the reasons why the gift was provided and why they believe no COI will exist by providing the gift;
- iii. The gift must be bespoke and have no resale value in a normal arm's length commercial transaction;
- iv. The value of the gift does not exceed R10 000; and
- v. The gift is recorded in Fedgroup's COI Register.

Principle 11: Joint ventures

An FSP partner who enters into a joint venture arrangement with Fedgroup is treated in the same way as any other FSP partner and any item of value offered/received that is subject to the COI restrictions and needs to be recorded accordingly.

Principle 12: Judgement and consultation

Any item of value offered or received from any FSP that meets the requirements set out in the principles above and is not expressly excluded from recording by any other principle in this document must be recorded on Fedgroup's COI Register.

Judgement will be required in some instances although the principles set out above must be applied under all circumstances.

When in doubt, business units should consult Fedgroup's Compliance department to ensure that principles are consistently applied throughout Fedgroup.

4. PENSION FUNDS ACT & TRUST PROPERTY CONTROL ACT

4.1 Examples of the types of COI that may arise in the context of trustees' role in administering a Trust are:

- i. using funds from the trust to pay personal obligations;
- ii. selling trust property to themselves, a business entity they own, or another trust they manage for less than fair market value;
- iii. using trust funds to purchase property from themselves for more than market value;
- iv. hiring the trustee's business to perform services for the trust;
- v. charging excessive trustee fees;
- vi. gaining a business advantage through a financial transaction with a trust beneficiary; and
- vii. making investment decisions that benefit the trustee and not the Trust beneficiaries.

4.2 More specifically in the context of acting as a trustee for a pension fund or retirement fund inter alia the following role-specific or situation-specific COI may arise:

Role-specific examples

- i. a trustee is a significant shareholder in the sponsoring employer (particularly common for smaller companies) and as a result of his/her trusteeship can exercise a degree of influence over decision-making;
- ii. a trustee is a director or senior employee of the sponsoring employer;
- iii. an individual is a trustee of more than one scheme with the same sponsoring employer;
- iv. a trustee is also a director of a service provider to the scheme;
- v. a trustee is also employed by a potential service provider to the scheme;
- vi. a trustee is also a trade union representative or employee representative.

Situation specific examples (i.e., where other duties may influence an outcome):

- i. the sponsoring employer of a scheme pays for administration but is seeking to reduce costs: this aim may diverge from the trustees' objective to improve standards of administration (possibly at a higher price);
- ii. the pensions administration service is performed in-house, and the pensions manager is responsible for providing services to one or more schemes, as well as advising the employer on confidential pensions related matters;

- iii. investment decisions where an individual trustee may have shares or other financial interests in companies in which the trustees may wish to invest;
- iv. funding decisions which are unduly or inappropriately influenced by a trustee who also holds a senior role within the employer – this may become more relevant when the employer operates performance related bonuses or incentives.
- v. trustee involvement in corporate transactions involving the sponsoring employer, where the interests of the scheme as a creditor may diverge from the benefits accruing to other parties to the transaction;
- vi. a trustee who also holds a role within the employer is privy to sensitive information relating to the employer, which could have an impact or potential impact on the scheme;
- vii. a decision to wind up/close the scheme to future accrual;
- viii. where conversion terms for member options are under discussion, particularly those for commutation of pension at retirement – while trustees are likely to be motivated to ensure broad cost neutrality within the scheme, the employer may prefer and encourage conversion terms that lead to lower expected costs;
- ix. trustees approaching retirement may be motivated by favourable options to improve benefits at a personal level as opposed to considering the wider implications.

5. CISCA

Identifying and contextualising potential COI in the CIS Manager's scope of activities

- 16.3 A CIS could be used to provide benefits for those in an insider relationship with the CIS, such as an operator, investment manager, or distributor, at the expense of investors in the CIS. It is important that the CIS Manager appreciates the contexts in which COI arise in relation to its activities.
- 16.4 The operator might seek to attract many investors into the fund, even if this should result in the fund becoming too large for efficient asset management. In executing the investment strategy, the investment manager might take excessive risk or may be excessively risk averse.
- 16.5 The operator could manage the assets of the fund in such a way that it in effect tracks a benchmark index while applying charges for active management. In addition, the CIS could appoint directors, custodians or depositaries, who lack the requisite independence.
- 16.6 Additional potential COI arise when CIS are affiliated with other financial institutions. Instead of operating the CIS to produce the best possible net return for investors, they could operate it to generate revenue for affiliated companies and employees. The managers of the CIS could use the fund to support issues of securities underwritten by an affiliated organisation. The CIS might be used to purchase assets that could not be placed in a public offering.
- 16.7 The fund managers could also direct securities trades to affiliated market intermediaries, rather than seeking best execution of orders.
- 16.8 There is also the risk that the company will trade excessively in order to increase the commission income of affiliated market intermediaries (churning of portfolios). Failure to protect information about future trades from affiliated intermediaries can allow these intermediaries to "front run" (i.e., deal on the basis of Inside Information).
- 16.9 In all of these cases, the investment manager could trade at prices or commissions that are inappropriate from the point of view of investors while allowing the operator or the affiliated intermediary to earn profit from an inside relationship. Since costs are directly incurred by the operator, which typically operates a large number of funds, and often shares facilities with other members of the financial group, equitable ways must be found to allocate expenses among CIS.

Identifying and contextualising potential COI in the CIS Manager's scope of activities

- 4.3 A CIS could be used to provide benefits for those in an insider relationship with the CIS, such as an operator, investment manager, or distributor, at the expense of investors in the CIS. It is important that the CIS Manager appreciates the contexts in which COI arise in relation to its activities.
- 4.4 Fedgroup identifies and recognises that the following categories of COI that may arise in the context of operating a CIS:
- 4.4.1 **Principal transactions between the CIS and its affiliates**
 - 4.4.1.1 This refers to transactions where the CIS enters into a transaction with an "affiliated party" as a principal for example:
 - 4.4.1.1.1 purchase of securities from an affiliate at an inappropriate price (i.e., higher than the market value), or where they do not meet the CIS's objectives;
 - 4.4.1.1.2 purchase of securities underwritten by an affiliate, where those securities are inappropriately valued or do not meet the CIS's objectives;
 - 4.4.1.1.3 sale of the CIS's securities or investments at an inappropriate price (i.e., lower than the market value) in order to meet the affiliates' other obligations;
 - 4.4.1.1.4 exchange (i.e., cross-trades) of the securities of the CIS for the securities of an affiliate where the securities of the affiliate are valued incorrectly, illiquid or do not meet the CIS's objectives;
 - 4.4.1.1.5 restrictions resulting from trading in securities of affiliates due to knowledge or perceived knowledge of price sensitive information, which could lead to untradable investments of the CIS; and
 - 4.4.1.1.6 the CIS operator being subject to pressure to act (e.g., vote) in a certain way in the interest of the affiliate, which may not be appropriate for the CIS.
 - 4.4.2 **Transactions using affiliated party intermediaries**
 - 4.4.2.1 Where a CIS's transacts with a party which is generally not directly affiliated or associated with the CIS but are entered through the use of an "affiliated party intermediary" such as agents, brokers and other CIS's affiliated to parties who are considered as affiliates of the CIS (e.g., the operator or custodian of the particular CIS or their affiliates). Possible conflicts that could arise as a result of CIS transactions using affiliated party intermediaries include:
 - 4.4.2.1.1 paying excessive commissions or fees to an affiliated party intermediary used for buying or selling securities or other investments of a CIS;
 - 4.4.2.1.2 the CIS operator having arrangements to share commissions or other benefits derived by an affiliated party intermediary used for buying or selling securities or other investments of the CIS which are not passed on to the CIS;
 - 4.4.2.1.3 when a CIS operator delegates its CIS management functions, there is a risk that the delegated manager may pass transactions either through itself or its affiliates, with the potential to double charge commissions to the CIS;
 - 4.4.2.1.4 when acting as the agent of the CIS, the affiliated party intermediary receiving payments or kickbacks from the other party to the transaction;
 - 4.4.2.1.5 not achieving best execution terms or undertaking unsuitable transactions (e.g., churning) to generate increased margins or commissions for the affiliated party intermediary; and

- 4.4.2.1.6 where there are inadequate Chinese Walls in place between the CIS operator and the affiliated party intermediary, the opportunity for the latter to "front run" the CIS by using price sensitive information or allocate favourable trades.

4.4.3 Joint transactions with affiliated parties

- 4.4.3.1 Where a CIS and its affiliates (such as the operator or custodian of the CIS or their affiliates) jointly enter into a principal transaction with a third party for example:
 - 4.4.3.1.1 opportunity for the affiliated party to negotiate terms of the transaction (e.g., the maturity of privately placed securities to be jointly purchased) to the detriment of the CIS and in its own interest;
 - 4.4.3.1.2 opportunity for an affiliated party intermediary to make preferential allocation of assets, which promotes the interests of the CIS operator rather than the CIS;
 - 4.4.3.1.3 acquiring holdings in a target company between the CIS and the affiliated party, which may allow the affiliated party (e.g., the CIS operator) a degree of control over the target which it may use in its own, rather than that of the CIS's, interest;
 - 4.4.3.1.4 creation of false markets for the investments jointly purchased, leading to overvaluation of the CIS interests which will disadvantage incoming investors; and
 - 4.4.3.1.5 opportunity for the affiliated party to fund other inappropriate affiliated investments.

4.4.4 Fee arrangements

- 4.4.4.1 CIS operators are entitled to receive certain fees and other compensation for managing the CIS including administration and other services that are integral to the management of the CIS. As a result, any management fees which a CIS operator is entitled to receive from the CIS are generally intended to cover the administration costs that a CIS operator would incur in the management of the CIS and their profits. However, a CIS operator may have certain discretions when determining the fees and charges that it can levy to the CIS, and how those services are to be obtained. Therefore, when CIS operators levy their fees and charges to the CIS, certain COI can arise. Such COI include situations where a CIS operator -
 - 4.4.4.1.1 charges fees based on the performance of the CIS, which may provide an incentive for the CIS operator to take undue risks with the assets of the CIS to increase its fees;
 - 4.4.4.1.2 appoints an affiliate of the CIS operator to provide administrative services (e.g., record keeping, registration, research etc.) to the CIS, which may provide an incentive for the CIS operator to charge the highest possible fee and provide less expensive services;
 - 4.4.4.1.3 delegates its investment management functions, which may provide an opportunity for double charging the CIS for investment transactions which are passed through the delegated manager or its affiliates because the management fees should generally cover such costs and should not be charged to the CIS separately;
 - 4.4.4.1.4 provides other agency services (e.g., foreign exchange conversion transactions), which may provide an incentive for the CIS operator to charge a mark-up on such transactions;
 - 4.4.4.1.5 receives goods or services from a third party either independently or jointly with the CIS, which may provide the opportunity for the CIS operator to charge the cost of the services or goods entirely to the CIS. For example:
 - 4.4.4.1.5.1 an inflated audit fee charged to the CIS to cover the cost of the audit of the CIS and the CIS operator; or

- 4.4.4.1.5.2 receiving discounts on the services it obtains, which may be covered by increased charges paid by the CIS; and
- 4.4.4.1.5.3 the ability to indemnify the CIS operators and their officers out of the CIS funds, which may provide the incentive for the CIS operator to engage in wilful wrongdoings or act recklessly in disregard of the interests of the CIS and CIS investors.

4.4.5 **Employee remuneration and employee transactions on own account**

COI that may adversely affect the interests of CIS investors may arise in relation to remuneration arrangements that employees have with the CIS operator; and also, where the CIS operator allows employees to engage in transactions on their own account without adequate controls to minimise employees; activities which are not in the best interest of CIS investors but their own.

4.4.6 **Selection of directors, custodians and depositories who are favourable to the CIS operator**

COI may arise where a CIS operator has a discretion when appointing directors, custodians and depositories, as they may have the incentive to select persons who are likely to make favourable decisions to the CIS operator rather than act in the best interest of the CIS and CIS investors.

4.4.7 **Trading on own account**

Where a CIS operator undertakes trading on own account, there is a potential for COI to arise.

Measures to avoid and manage COI in CIS environment

4.5 In accordance with the CIS Standard, the CIS Manager shall on a continuing basis comply with the following principles:

4.5.1 For purposes of identifying the types of COI that arise in the course of providing services and activities and whose existence may damage the interests of a scheme or portfolio, CIS Managers must take into account, by way of minimum criteria, the question of whether the CIS Manager or a relevant person, or a person directly or indirectly linked by way of control to the CIS Manager, is in any of the following situations, whether as a result of providing portfolio management activities or otherwise:

- 4.5.1.1 the CIS Manager or that person is likely to make a financial gain, or avoid a financial loss, at the expense of the scheme or portfolio;
- 4.5.1.2 the CIS Manager or that person has an interest in the outcome of a service, or an activity provided to the scheme or portfolio or another client or of a transaction carried out on behalf of the scheme or portfolio or another client, which is distinct from the scheme or portfolio interest in the outcome;
- 4.5.1.3 the CIS Manager or that person has a financial or other incentive to favour the interest of another client or group of clients over the interests of the scheme or portfolio;
- 4.5.1.4 the CIS Manager or that person receives or will receive from a person other than the scheme an inducement in relation to portfolio management activities provided to the scheme or portfolio, in the form of monies, goods or services, other than the standard commission or fee for that service.

4.5.2 The procedures and the measures set out in this part **Error! Reference source not found.** are designed to ensure that relevant persons engaged in different business activities involving a COI carry on those activities at a level of independence appropriate to the size and activities of the CIS Manager and of the group to which it belongs and to the materiality of the risk of damage to the interests of investors.

- 4.6 A CIS Manger shall –
- 4.6.1 prevent or control the exchange of information between relevant persons engaged in portfolio management activities involving a risk of a COI where the exchange of that information may harm the interests of one or more investors;
 - 4.6.2 ensure that there is separate supervision of relevant persons whose principal functions involve carrying out portfolio management activities on behalf of, or providing services to, clients or to investors whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the CIS Manager;
 - 4.6.3 remove any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenues generated by, different relevant persons principally engaged in another activity, where a COI may arise in relation to those activities;
 - 4.6.4 prevent or limit any person from exercising inappropriate influence over the way in which a relevant person carries out portfolio management activities;
 - 4.6.5 control the simultaneous or sequential involvement of a relevant person in separate portfolio management activities where such involvement may impair the proper management of COI.
- 4.7 A CIS Manager must keep and regularly update a record of the types of portfolio management activities undertaken by or on behalf of the CIS Manager in which a COI entailing a material risk of damage to the interests of one or more portfolio or other clients has arisen or, in the case of an ongoing portfolio management activity, may arise.
- 4.8 Where the organisational or administrative arrangements made by a CIS Manager for the management of COI are not sufficient to ensure with reasonable confidence that risks of damage to the interests of the scheme or portfolio or of its investors will be prevented, the board of the CIS Manager must be promptly informed in order for them to take any necessary decision to ensure that the CIS Manager acts in the best interests of the scheme and its investors.
- 4.9 A CIS Manager must at all times ensure that all its Employees, delegated persons and other representatives are aware of its COI policy and the CIS Manager must provide for appropriate training in this regard.

Annexure A: Form of disclosure to customer under the FAIS Code

1. The existence of actual or potential conflicts of interest ("COI"), means any situation in which Fedgroup or a Representative has an interest that may influence the objective performance of our obligations or may prevent us from rendering an unbiased financial service.
2. We have adopted and implemented a COI Management Policy and we confirm that, in the event that there is a potential COI in respect of the service rendered or the advice provided, the interest of our customer will be accorded priority over our own interests. It is furthermore acknowledged that, whilst a clearly identified COI will not necessarily cause the provision of financial advice to a customer to be significantly compromised, it should nonetheless be disclosed to the customer. The customer must be afforded the opportunity to decide for him/herself whether the COI is significant and to what extent he/she will wish to proceed with the specific financial service.
3. A full copy of our COI Management Policy can be obtained from our website and offices upon written request to our GRCE Department.
4. **Staff Incentives:**
We confirm that none of our staff are incentivised to give preference to any specific product supplier or product and where incentives based on volumes are in place, these are supported by an assessment of the quality of business sold and procedures followed.
5. **Gifts and donations:**
It is a generally accepted practice within our industry that gifts, entertainment and donations are provided by product suppliers to intermediaries and vice versa. The rand value is limited per calendar year to **R1 000** per product supplier per Representative and such limitations are dealt with and managed by our COI Management Policy.
6. **COI:**
We have identified a potential COI, and the subsequent determination of its unavailability. Fedgroup carries out activities as an advisor and has a common shareholder (Fedgroup Financial Holdings) which owns an equity stake in Fedgroup Asset Management, Fedgroup Trust Administrators, Fedgroup Life and Fedgroup Financial Services. Furthermore, certain Representatives of Fedgroup are both directors and indirect shareholders and may be entitled to financial interest or ownership interest in relation to investments placed with Fedgroup. A potential COI may arise where recommendations are made by Representatives of Fedgroup in relation to investments in the group.
7. **Reasons why the COI is unavoidable:**
 - 7.1 The recommendation of investments is unavoidable and in the interests of investors for the reason it is the only efficient way that the Fedgroup can actively manage its customer's financial products on an ongoing basis given:
 - i. The number of customers
 - ii. The geographical spread of the customers
 - iii. The number of financial product platforms utilised.
 - 7.2 Furthermore, it is the only way of formally ensuring that our customers have the benefit of greater transparency in the way their financial products are managed and the quantum of the costs that are levied.
 - 7.3 It is the only way to have access to specialised, dedicated asset management expertise and investment research on an ongoing cost-effective basis.

It is the only way to effectively implement the predetermined investment process without the administrative constraints.