

## 24. Conflicts of Interest & Fraud Prevention

Rules Reference: FCA Principle 8, SYSC 7 & 10  
AMF, Article 318-13  
Section 206, Investment Advisers Act 1940

Rules Summary: The regulators regard Conflicts of Interest as a material risk and expect firms to take appropriate steps to safeguard against any Conflict of Interest arising which contravenes the interests of clients.

### Conflicts of interest

**The Polar Capital Group has implemented a Conflicts of Interest Policy reflecting the highest standard of European and US regulation applicable to the group. The policy applies to all individuals working within all entities within the group.**

The rules under the FCA, ESMA, AMF and SEC, in relation to the identification and prevention of Conflicts of Interests, as commonly known under FCA rules, or the Anti-Fraud Provisions, as commonly known under SEC rules, are both very broad and wide ranging in their application. Both FCA and SEC require firms to take a risk-based approach to prevent Conflicts of Interest from contributing or giving rise to a material risk of damage to the interests of clients and their investors. Polar must consider all Conflicts of Interest when implementing policies and procedures and disclose any conflicts (generally disclosed in Form ADV Part II for SEC). Penalties for breaches of these rules are severe, ranging from censure and summary dismissal, to fines and possible imprisonment. The following sections sets out the requirements that must be adhered to, in order that the firm and its Employees are able to avoid, manage and monitor Conflicts of Interests, or breaches to SEC Anti-Fraud Provisions, AMF Article 313-18, FCA SYSC 10, FCA Principle 8 and the European Markets in Financial Instruments Directive 2014/65/EU, Article 23, as implemented by the FCA, which requires firms to manage conflicts of interest fairly.

It is our policy to identify the conflicts of interest that may exist between a) ourselves or anyone linked to the firm (including managers, employers and controllers) and our clients or the investors in those clients or b) one client or the investors in that client and another client or c) a client or the investors in that client, and another client and the investors in that client or d) 2 clients of the firm or e) ourselves and any third party or 'delegate' as defined under AIFMD. We must as a priority aim to ensure that clients are not adversely affected by potential conflicts. It is therefore our policy to document the arrangements we have put in place to manage the conflicts identified. Where the organisational arrangements made by the firm to identify, prevent, manage and monitor conflicts of interest are not sufficient to ensure that the risk of damage to investors' interests will be prevented to disclose this to clients and investors alongside our Conflicts of Interest Policy.

We should be particularly careful in this regard should we be involved in the issuance of independent research on securities, engage in proprietary trading or undertake any corporate finance activities with firms whose securities may be included in portfolios we manage.

All conflicts of interest must be identified and reported to the Compliance Officer.

The Compliance Officer will advise on managing, mitigating or preventing the conflict of interest and will enter the conflict of interest into Polar's Conflicts Log and, where appropriate, will escalate the conflict of interest to the Board of Polar for decision and action. In the event that the Compliance Officer or the Board determines that an activity must be curtailed or any corrective action is to be taken, employees must comply with all instructions in that respect and, if instructed to do so, must ensure that the conflict of interest is disclosed to investors in the manner directed by the Compliance Officer.

Conflicts of interest are situations where:

- We are likely to make a gain, or avoid a loss, at the expense of a client or a client group or an investor in such a client.
- We have an interest distinct from the clients or investors, in the outcome of a transaction undertaken on a clients' or investor's behalf.
- We have a financial interest in favouring one client or investor over another.
- We carry on the same business as the client.
- We receive a payment or other form of inducement from someone other than the client or its investors other than a standard commission or fee for that service.
- Appoints a third-party delegate who has control over Polar and/or such delegate has control over an investor in a client that is an AIF.

The arrangements to manage potential conflicts of interest include:

- Segregation of duties
- Chinese Walls
- Supervision
- Removal of direct remuneration incentives
- Avoiding inappropriate influence being brought to bear in the way clients are treated
- Operation of dual controls
- Policies in relation to employees personal interests in investments i.e. PA Dealing Rules (see Part I, section 16)
- Policies in relation to employee gifts and entertainment
- Restricted lists
- Staff training and quarterly and annual declarations relating to Conflicts of Interest, Personal Account Dealing, Anti-Bribery and Market Abuse

Where we choose to use Chinese walls to manage a particular conflict of interest these arrangements must be documented and independently monitored to evidence their effectiveness.

## Delegation

- Polar must identify any activities carried out by a delegate, sub-delegate, external valuer or counterparty that may give rise to a conflict of interest entailing a material risk of damage to the interests of a fund or its investors.
- Conflicts of interest between the interests of a delegate and interests of Polar or the investors in an AIF may occur in the following circumstances:
- Where Polar and the delegate are both members of the Polar group or have any other contractual relationship, the extent to which the delegate controls Polar or has the ability to influence its actions (in such cases the likelihood of conflict will increase the greater the extent of such control);
- Where the delegate and an investor in the relevant AIF are both members of the Polar group or have any other contractual relationship, if that investor controls the delegate or has the ability to influence its actions (in such cases the likelihood of conflict will increase the greater the extent of such control);
- Where there is a likelihood that the delegate makes a financial gain, or avoids a financial loss, at the expense of the AIF or the investors in the AIF;
- Where there is a likelihood that the delegate has an interest in the outcome of a service or an activity provided to Polar or an AIF;

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- Where there is a likelihood that the delegate has a financial or other incentive to favour the interest of another client over the interests of an AIF or the investors in that AIF; and
  - Where there is a likelihood that the delegate receives or will receive (from a person other than Polar) an inducement in relation to the collective portfolio management activities provided to Polar and the AIFs it manages in the form of monies, goods or services other than the standard commission or fee for that service.

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**Some primary examples of areas where potential conflicts may arise include:**

- Obtaining goods and services and/or gifts and hospitality (inducements), whether paid for or not from brokers or other third parties unless they are minor non-monetary benefits, capable of enhancing the quality of service to the client and do not inhibit the firm from acting in the best interests of its client.;
- Through the firm's own remuneration or incentive structures;
- Issuing side letters with different terms for different clients without disclosure;
- Unfairly valuing an investment where administration has difficulty obtaining a price;
- Allocation of aggregated orders; and
- Front running client orders.

Polar has a compliance monitoring programme which includes monitoring of conflicts of interest and resulting monitoring reports and recommendations are provided to the Board for decision or action as appropriate.

## Polar Capital LLP

### Conflicts of Interest Policy & Inventory

#### What are conflicts of interest?

Legally, a conflict of interest is where a firm puts itself in a position where its own interest's conflict with the duty owed to its clients. However, the FCA uses the term to cover all conflicts inherent in and arising from performance of fiduciary duties. Our policy therefore covers:

- **Conflicts of interest** – where our interests conflict with our clients'
- **Conflicts of duty** – where our duties to one client conflict with our duty to another
- **Duty of confidentiality** – which we owe to our clients

#### FCA and AMF Requirements

FCA Principle 8 - A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another customer.

The FCA SYSC Rules and AMF Section 7 Conflicts of Interest also require us to have adequate systems and controls to manage risks. We are required to formally document our conflicts policy. It is not sufficient that we rely solely on disclosure of conflicts in customer agreements or elsewhere.

FCA SYSC 10 and AMF Article 318-13 – A firm must take all reasonable steps to identify, manage, record conflicts of interests arising between the firm and any managers, employees and appointed representatives, or any person directly or indirectly linked to them by control, and a client of the firm, or one client of the firm and another client. Additionally, SYSC 10.1.23 and Article 318-13 requires that all AIFMs take all reasonable steps to identify conflicts of interest that arise, in the course of managing AIFs, between:

- 1) the AIFM, including its managers, employees or any person directly or indirectly linked to the AIFM by control, and an AIF managed by the AIFM or the investors in that AIF; or
- 2) an AIF or the investors in that AIF, and another AIF or the investors in that AIF; or
- 3) an AIF or the investors in that AIF, and another client of the AIFM; or
- 4) an AIF or the investors in that AIF, and a UCITS managed by the AIFM or the investors in that UCITS; or
- 5) two clients of the AIFM

#### European Markets in Financial Instruments Directive 2014/65/EU requirements

Article 23 – Member States shall require investment firms to take all appropriate steps to identify and to prevent or manage conflicts of interest between themselves, including their managers, employees and tied agents, or any person directly or indirectly linked to them by control and their clients or between one client and another that arise in the course of providing any investment and ancillary services, or combination thereof, including those caused by the receipt of inducements from third parties or by the investment firm's own remuneration and other incentive structures.

#### Conflicts of Interest Policy

In accordance with our regulatory requirements it is our policy to identify all potential conflicts inherent in our business and have adequate systems and controls to avoid or mitigate their impact on customers, including disclosure to customers where appropriate.

## Conflicts Inventory

### 1. Dealing with Customers

Inherent Conflict Risks	Management Arrangements
<p><b>1.1 Promotional material</b></p> <p>That financial promotions are unfair, untrue and/or misleading</p>	<p>All promotional material is approved in accordance with FCA Rules by individuals assessed as competent and responsibility is formally apportioned.</p>
<p><b>1.2 Third party marketers</b></p> <p>That inappropriately licensed or disreputable firms with undisclosed remuneration arrangements are involved in attracting new clients</p>	<p>Where Polar deems it appropriate to use a third party marketer the third party will undergo due diligence before being engaged and will be subject to periodic due diligence reviews.</p>
<p><b>1.3 Side letters</b></p> <p>That arrangements are established providing advantages for certain investors that either disadvantage and/or are unavailable to others</p>	<p>Polar has not entered into any side-letters with investors that could disadvantage any other investors</p> <p>Full disclosure of the extent any arrangements entered into that could be considered as being side letter related are included in fund prospectuses, fund fact sheets and fund R &amp; As.</p>
<p><b>1.4 Appropriateness</b></p> <p>That the appropriateness of relevant transactions is not established and our interests as a firm are put before those of clients</p>	<p>Polar does not undertake specific transaction on clients instructions</p>
<p><b>1.5 Transparency</b></p> <p>That information enabling better decision making is shared on a preferential basis</p>	<p>Polar is willing to share, on a fund to fund basis the same level of transparency with all clients, this made clear at the foot of each fund fact sheet</p>

## 2. Managing and Investing

Inherent Conflict Risks	Management Arrangements
<p><b>2.1 Suitability of trading</b></p> <p>That mandate requirements are not adhered to and that excessive transactions are undertaken</p>	<p>Polar has internal processes and review mechanisms to protect against this risk</p>
<p><b>2.2 Conflicting / competing strategies</b></p> <p>That a portfolio manager simultaneously manages both long only funds as well as funds with short positions (issues of market abuse)</p>	<p>The investment objectives and portfolio characteristics of long only funds differ from those of long/short funds. Polar protects against such risks by rigorously applying capacity limits on all funds and having performance fees on all products</p>
<p><b>2.3 Confidentiality</b></p> <p>That commercial or private information is not sufficiently protected.</p>	<p>The standards relating to the imperative of client and commercial confidentiality are clearly laid out in our Compliance Manual</p>
<p><b>2.4 Valuation</b></p> <p>That the value assigned to particular securities in the portfolio does not reflect the likely realisable price</p>	<p>Our portfolios are valued separately by both an independent middle office provider and also an independent fund administrator, each using different price feeds. Their controls and procedures reflect industry best practice in establishing the appropriate value for securities. Polar performs independent oversight of the these arrangements</p>
<p><b>2.5 Side pockets</b></p> <p>That the interests of participants or non-participants in investments held in side a pocket fails to reflect their fair entitlement</p>	<p>Any side pockets are independently reviewed by the fund Board of Directors, the Investment Manager, Risk Committee and Valuation Committee to ensure the interests of participants or non-participants in investments held in side a pocket reflect their fair entitlement</p>
<p><b>2.6 Transaction allocation</b></p> <p>That aggregated transactions are not allocated or reallocated fairly between clients</p>	<p>Transactions are not traded on an aggregated basis unless in compliance with the firm's Allocation Policy, therefore allocation or reallocation issues are avoided</p>
<p><b>2.7 Affiliates</b></p> <p>That business is routed through affiliates in inordinate amounts or on unfair terms</p>	<p>Polar does not execute transactions through affiliates.</p>

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**2.8 Bundling**

That client commissions are used to pay for services that should be paid for directly by the manager

Commissions are only used for achieving best execution and paying for research in accordance with FCA [and SEC] Rules. Polar reports to all its clients the split between these services.

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**2.9 Market Abuse**

That we undertake activities that constitute market abuse, including market timing, that compromise the integrity of our investment process or product

Polar has in place practices and policies to ensure awareness amongst all staff of its, and their, obligations and is initiating training to reinforce and administer its Market Abuse prevention regime.

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**2.10 Trade Errors**

That the costs of trading errors are picked up by clients

Polar's trade error resolution policy is to ensure any errors are made good. Any proceeds arising from an error are to the benefit of the client.

**Allocation Errors**

That allocation errors lead to inappropriate loss/detriment of a client and profit/benefit

Where there is an allocation error the client that profits will reimburse the client that loses/is disadvantaged. Polar Capital LLP will cover any expenses involved in rectifying any miss-allocation error.

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**2.11 Principal Trading**

That the interests of the firm are put before those of clients e.g. front running

Polar does not involve itself in principal trading.

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**2.12 PA Dealing**

That the interests of staff are put before those of clients e.g. front running

The standards expected of staff in relation to their PA deals are clearly laid out and communicated via the compliance manual. All deals must be independently approved prior to execution and retrospectively reviewed

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**2.13 Outside Employee Interests**

That staff hold positions which could conflict with their ability to perform their role within the firm.

Staff are required to formally declare any positions that have the potential to conflict with their role within the firm on an annual and ad hoc basis.

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### 3. Infrastructure Arrangements

Inherent Conflict Risks	Management Arrangements
<b>3.1 Firm remuneration</b> That the firms remuneration arrangements are undisclosed	Our client agreements set out the basis of our remuneration in full.
<b>3.2 Staff remuneration</b> That staff are remunerated to act in a manner that conflicts with clients objectives	The interests of our staff are directly aligned to the interests and performance of their clients and investors
<b>3.3 Recruitment and development</b> That staff without proper qualifications are hired or that staff are not adequately developed	Polar aims to hire experienced professionals and have in place a rigorous referencing and recruitment process. This is complemented with a formal appraisal and personal development programme
<b>3.4 Key Man Risk</b> That reasonable arrangements to minimise the likelihood of losing key staff are not established	Key individuals are identified on an ongoing basis and succession plans, KMI and development arrangements are adopted as appropriate
<b>3.5 Insufficient Resources</b> That insufficient financial or human resources are in place to ensure delivery of contractual obligations and that sufficient segregation of duties is maintained to manage risk	Polar carries capital in excess of its regulatory requirements. During its annual budgeting processes it has full regard to the need to maintain adequate resources to fulfil its contractual obligations and the maintenance of segregation of duties in key areas
<b>3.6 Services provided by Prime Broker</b> That the services provided by a Prime Broker compromises the independence or integrity of the firm <ul style="list-style-type: none"> <li>• Premises</li> <li>• Staff</li> <li>• Systems</li> <li>• Cap Intro, etc</li> <li>• Leverage terms</li> </ul>	Polar uses a number of Prime Brokers in order to compare and contrast the prices and services of each. Each PB is independent of Polar. Polar carries out regular reviews of the performance of its PBs

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**3.7 Services provided by administrator**

That the services provided by an administrator are not overseen adequately or compromises the independence or integrity of the firm

- A.** Middle office
- B.** Portfolio management software
- C.** Valuation independence

Each administrator is appointed by the Board of the relevant open ended funds. Each administrator is independent of Polar. Polar carries out regular service performance reviews of each administrator.

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**3.8 Gifts and entertainment (Inducements)**

That the integrity of either staff or suppliers is compromised by excessive largess

The standards expected and the internal approval and disclosure requirements with regard to inducements are clearly set out in the compliance manual and are compliant with UK and US laws on anti-bribery and corruption.

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**3.9 Business Continuity - Infrastructure**

That inadequate arrangements are established to ensure continuance of the business in the event of a disaster

Polar regularly tests the adequacy of key components of its plans.

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## Anti- Fraud

**Rules Reference:** FCA, SYSC 3.2

**Rules Summary:** The FCA considers fraud to be a primary risk for regulated firms and requires firms to have appropriate systems and controls for fraud prevention and detection.

Fraud is a real threat to our clients' assets, our financial health and to our image and reputation. Fraud involves theft or the falsification or alteration of accounting records or documents for financial gain. Fraud can be perpetrated by individuals outside or in our company and from collusion between someone within our company and an outsider.

The Compliance Officer has been delegated the task of managing the fraud prevention and detection arrangements ['arrangements']. Her primary responsibilities are:

- Ensuring arrangements meet with industry standards, are risk based and proportionate.
- Handling reports of suspected fraud.
- Reporting fraud cases to the appropriate authorities.
- Monitoring adherence to procedures.
- Reporting to senior management on the adequacy of the arrangements.

The arrangements have been integrated into the overall systems and controls within our company and include:

- A policy of a division of duties for all processes, where practicable.
- The establishment of a robust recruitment vetting process.
- Identification checks undertaken for money laundering prevention purposes.
- Information security controls.

You have responsibilities in helping us maintain our current standards. You should not take shortcuts nor veer from established procedures or knowingly assist a fraudster.

You should be vigilant to notice a suspicious transaction or event when doing your job and in the event of having a reasonable suspicion you should immediately report it to your line manager either orally or in writing, who will then notify the Compliance Officer.

If at any time you are unsure of your obligations you should refer to the Compliance Officer immediately.

## SEC Anti-Fraud Provision

**Rules Reference:** Section 206 and 208 Investment Advisers Act of 1940 and Section 10 Securities and Exchange Act of 1934

Under the Anti-Fraud provisions of the Advisers Act and Section 10 of the Securities and Exchange Act of 1934, it is unlawful for us, by any means directly or indirectly to defraud any Client or prospective Client.

This could include:

Acting as principal for his own account, knowingly to sell any security to or purchase any security from a Client, or acting as broker for a person other than such Client, knowingly to effect any sale or purchase of any security for the account of such Client, without disclosing to such Client in writing before the completion of such transaction the capacity in which he is acting and obtaining the consent of the Client to such transaction.

**DISCLAIMER**

*Please note that breaching this policy could result in a breach of the Conduct Rules. Please be mindful that this could have serious implications on your regulatory record and you must make Compliance aware of any suspected breaches as soon as you become aware of them. A copy of the Conduct Rules can be found in the Employee Manual.*