K2 CAPITAL (PTY) LIMITED

CONFLICTS OF INTEREST MANUAL

POLICY & PROCEDURES

1. DEFINITION

Conflicts of interest are circumstances where some or all of the interests of people (clients) to whom K2 Capital provides financial services are inconsistent with, or diverge from, some or all of the interests of K2 Capital. This may include actual, apparent and potential conflicts of interest.

2. PURPOSE

The purpose of a conflicts policy is to outline a suitable approach and response to the identification and management of conflicts of interest. Potential conflicts of interest are inherent in any business, therefore it is not our aim to avoid all conflicts of interest but rather to identify and manage any potential conflicts that may arise.

This manual and policy framework should be read and understood by all affected employees. The guidelines and recommendations contained herein should be considered and applied where relevant, and Employees should raise any queries regarding potential conflicts of interest to their manager.

3. UNDERLYING PRINCIPLES

In the financial services industry, conflicts of interest can be described as circumstances where some or all of the interests of clients to whom a financial services provider provides financial services are inconsistent with, or diverge from, some or all of the interests of the FSP or its representatives.

Adequate conflicts management helps to minimise the potential adverse impact of conflicts of interests on clients. Without adequate conflicts management, FSPs whose interests conflict with those of the client are more likely to take advantage of that client in a way that may harm that client and may diminish confidence in that FSP and in the financial services industry as a whole.

Adequate conflicts management should also help an FSP to ensure that the quality of their financial services is not significantly compromised by conflicts of interests.

While it is conceded that all potential conflicts of interest do not necessarily manifest themselves into actual conflicts, it is submitted that the very perception of bias is a negative one, and carries a negative impression of the industry.

Conflicts of interest management needs to be addressed in order to enhance the levels of professionalism and perceived professionalism of the financial services industry. Disclosure on its own is not always adequate. Management of conflicts as well as transparent, effective disclosure needs to be achieved.

FAIS legislation requires an FSP to disclose conflicts of interest to its clients. The FAIS General Code of Conduct for Authorised Financial Services Providers and Representatives currently requires an FSP to disclose to the client the existence "of any circumstance which gives rise to an actual or potential conflict of interest, and take all reasonable steps to ensure fair treatment of the client". "Non-cash incentives offered and/or other indirect consideration payable by another provider, a product supplier or any other person to the provider could be viewed as a potential conflict of interest".

4. POLICY

It is K2 Capital's policy to:

- **Control Conflicts of Interest-** identify the conflict that exists, assess and evaluate the conflict; decide upon and implement, an appropriate response to the conflict
- **Avoid Conflicts of Interest** - if serious potential impact on K2 Capital or a client.
- **Disclose Conflicts of Interest appropriately-** Clear, concise and effective disclosure so that the client can make an informed decision.

Should a conflict of interest arise then it must be managed effectively using a combination of tools namely:

- Disclosure: disclosing an interest to a client
- Chinese Walls
- Internal Policies and Procedures: systems and controls to minimize the impact that any conflict is likely to have on the client's interest
- K2 Capital should be able to demonstrate that any activity it undertakes does not disadvantage a client.

In order to ensure proper corporate governance, and the accountability and transparency of our organisation, relevant persons are required to declare any private interests that might affect the carrying out of their duties. They are also required to take steps to resolve any conflicts that arise in a way that protects the public interest. To fulfil this requirement, any relevant interests must be declared on the Register of interests. These are personal or business interests that might influence their judgement, deliberation or action as employees of the financial services provider, or which might be perceived by a reasonable member of the public as doing so.

Relevant persons must consider whether they need to disclose personal involvement with persons or organisations which members of the public might reasonably think could influence their judgement. Where there is uncertainty about whether a particular interest should be declared, advice should be sought from the compliance officer.

5. TYPES OF CONFLICTS-INTERESTS AND AFFILIATIONS, NON CASH INCENTIVES AND INDIRECT CONSIDERATIONS

The provider must disclose to the client the existence of any personal interest in the relevant service, or of any circumstances which gives rise to annual or potential conflict of interest in relation to such service, and take all reasonable steps to ensure fair treatment of the client.

a. Moonlighting

One may not engage in any employment or activity other than for K2 Capital in any business in which K2 Capital is engaged or contemplates engaging. While employed at K2 Capital, your full business energies and time should be devoted exclusively to the K2 Capital's business. If one wishes to pursue a second job with any other entity or to participate in an outside business venture ("Moonlighting"), one must ensure that the engagement in such activity does not create a conflict with the interests of K2 Capital or in any way use or risk disclosure of the confidential information of K2 Capital. Any outside activity should be strictly separated from the K2 Capital's employment and should not harm one's job performance at K2 Capital. Employees are required to disclose and receive approval from compliance/senior management prior to engaging in any such activity. Employees who are executive officers of K2 Capital should obtain such prior approval from the Board of Directors (the "Board").

b. Service on Boards and Committees

Employees must obtain approval prior to accepting any position to serve on a board of directors, an advisory board or on a committee of any entity. Employees who are not executive officers should obtain approval from relevant persons before accepting any board or committee position. K2 Capital may at any time rescind prior approvals to avoid a conflict or appearance of a conflict of interest for any reason deemed to be in the best interests of the company.

c. Self-Dealing transactions

K2 Capital should not engage in any self-dealing. Generally speaking, sales of property, goods, or services; exchanges and loans between K2 Capital and a disqualified person (such as a director or officer or a member of their families); payment of compensation to a disqualified person; and use of K2 Capital assets by or for the benefit of a disqualified person constitute self-dealing and are prohibited.

d. Gifts and improper personal benefits

No employee should obtain any material personal benefits or favors because of his or her position with the financial services provider. For specific guidelines, please refer to "Conflicts of Interest –gift policy guidance" and the gift register information pack.

Notes on gift policy: Directors, advisors, and staff members, and members of their families, may not knowingly receive or accept any pecuniary gain or anything else of value (including gifts, honoraria, loans, and entertainment) from recent, current, or potential grantees, vendors, suppliers, consultants, or others who have existing or proposed business or grantor-grantee relationships with K2 Capital. It is permissible to accept gifts of nominal value, meals, and social invitations that are in keeping with good business ethics and do not obligate the recipient to take or refrain from taking any action or decision on behalf of K2 Capital. Where it would be awkward to decline a gift, it should be accepted on behalf of K2 Capital, and senior management should be consulted as to its disposition.

e. Provisions Specific to Staff and investment in private companies

An employee's private interest cannot interfere with the interests of the financial services provider. Employees of K2 Capital have a full-time responsibility to the FSP and may not engage in activities that would interfere with the discharge of this responsibility. No employee may have business dealings with the financial services provider beyond receipt of salary and personnel benefits and reimbursement of authorized expenses.

Permission will be granted only when it is determined that the interests of K2 Capital are not compromised by the service to the other organization. Full disclosure of the relationship is required. If any recommendation goes forward, the disclosure must be presented to the Board and recorded in the Board minutes.

Employees may find themselves in a position to invest in clients of K2 Capital, partners or suppliers. It is imperative that employees presented with such opportunities understand the potential conflict of interest that may occur in these circumstances. Investing in private companies with which K2 Capital has an actual or potential business relationship may not be in the best interests of the FSP. The following guidelines are intended to cover such circumstances:

f. Non Cash Incentives and Indirect Considerations

Non-cash incentives offered and/or other indirect considerations payable by another provider, a product supplier or any other person to the provider could be viewed as a potential conflict of interest

Material benefits are any forms of non-cash incentives or benefits that are R500.00 or more in value for any single item or part thereof, including benefits that are passed to the spouse, partner, family member, business associate or employee of a provider or provider's representative by a product supplier; and also includes such non-cash incentives or benefits that amount to more than R1000 per natural person from a single product supplier over any calendar year.

Non cash incentives include but are not limited to:

- Overseas trips-incentivised
- Domestic trips-incentivised
- Sponsorships by product suppliers for financial services providers
- Gifts that amount to material benefits-motor vehicles, gift vouchers, loans on more favourable terms
- Payment or provision of all or part of the costs of any business service or other business expense, including but not limited to: Office rental; Computer hardware and commercial software
- Entertainment
- Domestic educational or professional development conferences
- Sponsorship of domestic provider events, including conferences, by a product supplier
- Accommodation and travel costs where the provider is invited as a speaker at a domestic conference/professional development event held by a product supplier
- Access to preferential, differentiated service and/or training and/or advice facilities, and the like
- Shareholdings, equity entitlements, sales quota obligations or performance fee entitlements that they, or an entity in which they have an interest, have in the product suppliers of the products or administrative financial services providers that the provider and/or its representatives recommend to clients.
- The fact that during the preceding 12 month period, the provider received more than 30% of total remuneration, including commission from the product supplier;
- Where a provider markets or gives advice in respect of the products of more than one product supplier, should the representatives of such provider be rewarded in any way that could, or could be perceived to, bias advice in favour of one product supplier over another, this fact must be disclosed;
- Where a provider markets or gives advice in respect of the products of one or more product suppliers, should the representatives of such provider be rewarded in any way that could, or could be perceived to, bias advice in favour of one particular product or underlying product option over another, this fact must be disclosed
- Computer software linked to a product supplier's products, such as a product-linked advice tool
- Benefits that are not material and are not in the form of cash or gift vouchers.

- Professional development conferences/courses that meet the following criteria: eg. The conference may be for no longer than three days and two nights.

g. Other Obligations

Other obligations already exist in and outside of FAIS, which deal with or relate to conduct potentially affected by conflicts of interest, including

- An FSP must have acted with due care and skill and in their clients' best interest. This includes numerous statutory contact stage disclosures, which includes conflicts of interest. The obligation to operate with due care and skill and in the best interest of the client and the conflicts management obligation is all interconnected. An FSP is unlikely to act with any due skill if they have inadequate policies in place surrounding conflicts of interest.
- The obligation to have adequate risk management systems in place
- The obligation to comply with all financial services laws
- To have adequate compliance arrangements
- The FSP's obligation to disclose any non cash incentives or indirect considerations relating to a sale of a financial product.
- A range of prohibitions, including misleading or deceptive conduct in the provision of a service, and insider trading
- The duties of a responsible entity of a registered collective investment scheme, including duties to act in the best interests of the members of the scheme and, if there is a conflict between the member's interests and its own interest, to give priority to the members' interests.

h. Documentation and Recordkeeping

For any conflicts arrangements to be deemed adequate, they need to be documented. This generally involves having a written conflicts management policy.

K2 Capital must keep records for at least 5 years of

- Conflicts identified and actions taken
- Any reports given to the K2 Capital's senior management about matters relating to conflicts
- Copies of written conflicts of interest disclosures given to clients

i. Controlling and Avoiding Conflicts of Interest

Clearly it is not practical to prohibit all conflicts of interest regardless of impact. Any policy should not dictate that a FSP could never provide a financial service if a conflict of interest exists. Rather any policy must advocate that all conflicts of interest be adequately assessed for impact, reported to the compliance function and/or senior management who will then decide how to proceed, i.e. either to proceed with caution, or in severe cases to avoid the conflict altogether.

If it is decided to proceed the conflict can be normally managed by a combination of internal controls and appropriate disclosures

Depending on the circumstances and the nature of any given conflict, it may be appropriate to:

1. Disclose the conflict of interest to the client;
2. Allocate another representative to provide the service to the client
3. Decline to provide a service to the client
4. Initiate internal/external disciplinary action (referring matter to regulator for instance) where warranted.

What constitutes an appropriate response to a given conflict of interest will always depend on the circumstances and facts of the case.

j. Ensuring arrangements are adequate

One must identify the conflicts and control the effects of those conflicts on the provision of financial services so that the quality of the service is not significantly compromised.

Robust and effective internal policies and procedures need to be in place to address potential conflicts emerging.

K2 Capital must have monitoring procedures in place to ensure that any non-compliance with the K2 Capital's conflicts management arrangements are identified and appropriately acted on. K2 Capital in conjunction with compliance must record any action taken on breaches for instance.

Note: Systemic instances of non-compliance with a conflicts policy will suggest that the arrangements themselves are inadequate.

Any arrangements must be tailored according to the nature, scale and complexity of the business.

k. Ensuring arrangements are implemented and maintained

K2 Capital must ensure that the conflicts arrangements they have in place to control conflicts of interest are:

1. Approved and endorsed by senior management
2. Designed according to the nature, scale and complexity of the K2 Capital's business
3. Effectively implemented (accompanied by effective compliance monitoring)
4. Regularly reviewed to ensure adequacy.
5. Overseen by a member of the senior management team who takes responsibility for implementation, reviewing and updating.

l. Internal Structure

It is important that internal structures and reporting lines support K2 Capital's management of conflicts. K2 Capital should carefully consider whether it is appropriate:

- To have advisory staff reporting to marketing staff
- For stand-alone advice units within the organisation to be in the same physical location as sales or investment management staff.

Robust information barriers may help K2 Capital manage conflicts. By insulating one group of staff from the information or other circumstances that give rise to a particular conflict, so that the group is not affected by the conflict.

m. Remuneration

K2 Capital needs to consider its remuneration practices (including non-monetary) as part of ensuring that it operates efficiently, honestly and fairly.

- If a product provider pays a higher rate of commission to K2 Capital for achieving certain volumes of sales, this must be disclosed by K2 Capital.
- Trustees taking fees based on funds under management should consider how to ensure they address any tendency to act other than in the best interests of their clients.

Disclosure to clients is an adequate mechanism for controlling conflicts of interest arising from remuneration practices.

Remuneration practices that place the interests of K2 Capital in direct and significant conflict with those of its clients should be avoided (and not merely disclosed).

- The need for a robust policy is likely to be higher where a FSP relies heavily on commission-based remuneration
- When providing advice to clients, advisers are specifically obliged to ensure their advice is appropriate (regardless of remuneration)

n. Treating Clients Fairly

K2 Capital must treat its customers fairly. It must:

- Not provide financial services that unfairly puts the interests of K2 Capital ahead of that of their clients
- Not provide financial services in a way that unfairly puts the interests of one client ahead of the interests of other clients.
- Not use knowledge about clients in a way that is likely to advance their own interests without sufficient disclosure to affected clients. (Transparency in disclosure)

K2 Capital needs to manage conflicts between the interests of various clients (existing/potential) as well as conflicts between K2 Capital's own interests and those of their clients.

Example:

FSP's should avoid situations where they unfairly favour one client or group of clients over another client or clients. This includes avoiding the scenario known as late trading where a client is permitted to trade in interests in a managed fund after the relevant trading period has closed (and in some instances after prices have been set)

o. Avoiding Conflicts of Interest

Certain conflicts have such a serious potential impact on a FSP or its clients that the only way to adequately manage those conflicts will be to avoid them. In these cases simply disclosing them and imposing internal controls may be inadequate.

For example:

1. K2 Capital should not permit its staff to offer to publish or give positive advice about a particular financial product issuer, or include their product on a recommended list, solely in return for benefits or continuing business from that issuer.
2. K2 Capital should not disclose pending client orders to third parties associated with K2 Capital (which would enable the third party to trade ahead of the client)
3. K2 Capital should not permit 'late trading' by some of their clients and
4. Where an adviser is significantly affected by conflicts of interest for particular financial product advice, the adviser may need to decline to provide the advice.

As far as possible, K2 Capital should avoid placing itself in a position where there is material conflict between its own interests and those of its clients.

p. Disclosing Conflicts of Interest

K2 Capital should make appropriate disclosure to clients as part of any arrangement to manage conflicts of interest. Clients have a right to be adequately informed about a conflict that may affect the provision of financial services to them.

Adequate disclosure = providing enough detail in a clear, concise and non-misleading way to allow clients to make an informed decision.

Disclosure assists clients to assess the service they are being offered in light of the FSP's own interests and to decide on the extent (if any) to which they will rely on the service.

q. Timely, prominent, meaningful disclosure

Disclosure should:

- Be timely, prominent, specific and meaningful
- Occur before or when the service is provided, at a time that allows the client a reasonable time to assess its effect
- Refer to the specific service to which the conflict relates

The use of 'generic' disclosures is unlikely to satisfy any conflicts management obligation. Disclosure should refer to the specific service to which it relates, and should be clear enough for the client to fully understand its implications.

r. Disclosures for Financial Product Advice

K2 Capital should disclose:

- The extent to which K2 Capital (or any associated person) has a legal or beneficial interest in the financial products that are the subject of the advice- can be disclosed in the Letter of Introduction at contact stage;
- The extent to which K2 Capital (or any associated person) is related to or associated with the issuer or provider of the financial products that are the subject of the advice;
- The extent to which K2 Capital (or any associated person) is likely to receive financial or other benefits depending on whether the advice was followed or not.

K2 Capital needs to provide the above disclosures in the same form as the advice (e.g. written disclosures where the relevant advice is in writing)

While the conflict of interest will not necessarily cause the advice to be compromised, it should still be brought to the client's attention.

s. Inappropriate Disclosure

There are times when disclosing a conflict may be inappropriate. Conflicts that arise may be confidential, and even amount to 'inside information' under insider trading rules. In situations like these K2 Capital will need to assess whether any disclosures can be given and whether the conflict can be adequately managed through other mechanisms. In such cases the conflict needs to be avoided altogether.