

Conflicts of Interest Policy

Overview

This document relates to the management of conflicts of interest by **SQM Research Pty Ltd** (SQM Research/SQM) and is designed to:

- outline SQM's obligation under the Corporations Act 2001 (the Act) in the management of conflicts of interest;
- confirm acceptance by SQM Research and SQM's Directors (the Directors) of its responsibility for such obligations;
- establish procedures to identify and assess conflicts of interest;
- implement and monitor responses to conflicts of interest, act on, and record any instance of non-compliance;
- ensure that all representatives and employees are familiar with and adhere to the SQM Research Conflict of Interest Policy;
- ensure that all representatives and employees are familiar with and adhere to the reporting of conflicts of interests; and
- implement measures to review and update these procedures.

1. Objective

The primary objective of this Policy is to manage conflicts of interest and potential conflicts of interest by implementing workable procedures for controlling, avoiding and disclosing conflicts of interests, in line with statutory and regulatory obligations.

2. What Is A Conflict Of Interest?

Conflicts of interest are circumstances where some or all of the interests of people (clients) to whom an Australian Financial Services (AFS) licensee (or its representative) provides financial services, are inconsistent with, or diverge from, some or all of the interests of the AFS licensee or its representatives. This includes actual, apparent and potential conflicts of interest.

3. Conflicts Management Obligation

3.1

As the holder of an AFSL and in accordance with section 912A(1) of the Act, SQM Research must adhere to the following general obligations to:

1. do all things necessary to ensure that the financial services covered by the AFSL are provided efficiently, honestly and fairly;
2. comply with the conditions on the AFSL;
3. comply with financial services law; and
4. comply with the other requirements set out in section 912A(1) and the relevant regulations.

3.2

For the purposes of this policy, SQM Research acknowledges and accepts the direct and specific obligation to manage conflicts of interest under the Act, which require SQM Research to:

"...have in place adequate arrangements for the management of conflicts of interest that may arise wholly, or partially, in relation to activities undertaken by the licensee or a representative of the licensee in the provision of financial services as part of the financial services business of the licensee or the representative;"

3.3

SQM Research further acknowledges and accepts ASIC guidance and interpretation of the conflicts management obligations as set out in Regulatory Guide 181 Licensing: Managing conflicts of interest (RG 181) and Regulatory Guide 79 Research report providers: Improving the quality of investment research (RG 79).

4. In What Context Can A Conflict Of Interest Arise?

4.1

Conflicts management obligations primarily relate to conflicts of interest that arise within SQM Research's business and in dealings with clients. An example includes the situation where SQM Research has a conflict between earning greater fees and its obligations to clients.

4.2

It also applies to conflicts of interests that arise between something within SQM's business dealings and something outside it. An example includes the situation where a conflict arises between an employee's or representative's personal interests and SQM's obligations to clients (e.g. if an employee or representative trades on their own account.)

4.3

It does not, however, apply to conflicts of interest that occur wholly outside SQM's financial services business. For instance, any potential conflict between the investment objectives of a client and the objectives of the relevant financial product will not be considered by SQM Research unless, if it were licensed to do so, SQM Research or a representative of it provided the financial product advice which led to the investment.

5. Mechanisms for Managing Conflicts of Interest

5.1

The conflicts management obligation does not prohibit all conflicts of interest. It does not provide that an AFS licensee can never provide financial services if a conflict of interest exists, it simply requires that all conflicts of interest are adequately managed.

5.2

SQM Research has considered and adopted, amongst other arrangements, the three mechanisms for managing conflicts of interest, as prescribed by ASIC in RG 181 in preparing this policy, and has put in place procedures and processes to:

1. control conflicts of interest;
2. avoid conflicts of interest; and
3. disclose conflicts of interest.

6. Controlling Conflicts Of Interest

6.1

In order to control conflicts of interest, SQM Research has implemented procedures to:

1. identify the conflicts of interest relating to SQM Research's business;
2. assess and evaluate those conflicts; and
3. decide upon, and implement, an appropriate response to those conflicts.

6.2

Identifying Conflicts of Interest

1. SQM Research has identified a number of potential conflicts of interest relevant to the business, which have been tabled in the Table of Conflicts of Interest set out in Annexure A.
2. Areas considered and marked for ongoing review include:

- a. the remuneration practices of the business (e.g. the fees charged to clients and the commissions, if any paid to advisers) and ensuring that such practices operate efficiently, honestly and fairly; and
 - b. the treatment of all clients fairly so that financial services are not provided in a manner that:
 - i. unfairly puts the interests of SQM Research ahead of clients (e.g. failure to disclose fees transparently);
 - ii. unfairly puts the interests of one client ahead of the interests of other clients (e.g. in its dealings with a representative or its associates when trading for that person); and
 - iii. uses knowledge about clients in a way that is likely to advance SQM Research's own interest without sufficient disclosure to affected clients (e.g. at worst, insider dealing).
3. Particular attention was given to the following potential conflict of interest situations:
- a. the granting of preferential treatment to a client who is a representative or associate, such as by trading at lower costs or charging reduced fees;
 - b. the granting of preferential treatment to a client who is a representative or associate, such as giving priority in access to products; and
 - c. the obtaining of an advantage over clients where SQM Research, or a representative or associate of SQM Research, trades at a rate more favourable than the market rate.

6.3

Assessing and Evaluating Conflicts of Interest

1. SQM Research has adopted the qualitative risk analysis methodology set out in ASIC RG 79. The Compliance Officer is responsible for assessing and evaluating conflicts of interest. The evaluation must be included in any written report prepared for the Board that deals with or relates to conflicts of interest.

6.4

Resolving Conflicts of Interest

1. In resolving conflicts of interest, SQM Research must decide upon and implement an appropriate response to such new and potential conflicts of interests.
2. Depending on the circumstances and nature of any conflict of interest, it may be appropriate to:
 - a. disclose the conflict of interest to the relevant client;
 - b. allocate another representative to provide the service to the particular client;
 - c. decline to provide services the particular client; or
 - d. initiate internal or external disciplinary action where warranted.
3. The above is not an exhaustive list. What constitutes an appropriate response to a particular conflict of interest will always depend on the facts and circumstances.
4. In considering the appropriate response SQM Research must always have regard to the various duties that apply at law.

7. Avoiding Conflicts of Interest

7.1

Some conflicts of interest are so serious in nature that the only way to manage them is to avoid them completely.

7.2

SQM Research must assess and evaluate any actual, apparent or potential conflict of interest and make the decision as to whether a particular conflict of interest is manageable or whether it should be avoided. One such example is if research reports are provided about products that the research report provider or its research staff hold a material

interest in, there is a potential conflict of interest. In instances such as this, SQM Research has assessed that the only way to adequately manage such a conflict is to avoid them entirely.

8. Disclosing Conflicts of Interests

8.1

SQM Research must make appropriate disclosures to clients as part of its arrangements to manage conflicts of interest. SQM Research recognises that while disclosure alone will often not be enough, disclosure is an integral part of managing conflicts of interest.

8.2

SQM Research will use its best endeavours to ensure that clients are adequately informed about any conflicts of interests. Adequate disclosure means providing enough detail in a clear, concise and effective form to allow clients to make an informed decision about how the conflict may affect the service provided to them.

8.3

Consistent with ASIC's expectations in RG 181, any disclosure made by SQM Research will focus on material conflicts and when providing disclosure about conflicts of interest, will ensure that disclosure:

1. is timely, prominent, specific and meaningful to the client;
2. occurs before or when the financial service is provided, but in any case at a time that allows the client a reasonable time to assess its effect; and
3. specifies the service to which the conflict relates.

9. Provision of non-research services

9.1

The provision of non-research services may give rise to a conflict of interest.

9.2

Non research services include the following (RG 79.130):

1. Underwriting a public offering;
2. Advice about the prospects for a potential public offering (including likely reception in the financial market);
3. Help in marketing and promoting a public offering (including participation in 'roadshows' and 'conference calls');
4. Advice on structuring and developing new financial products; and
5. Business management or consulting services on investment manager selection and asset allocation or the offering of 'fund of funds'.

9.3

If SQM Research engages in the provision of non-research services, conflicts management procedures and processes need to account for, and ensure the integrity of the provision of research reports is not compromised.

9.4

When providing non research services, amongst other measures, SQM Research must:

1. ensure that research on a product issuer is not published while non-research services are being provided to the product issuer, and for a short period afterwards;
2. disclose the nature of any non-research services that are provided to product issuers (i.e. disclosure is provided regarding associations and relationships);
3. enforce prohibition of Analysts providing non-research services; and
4. enforce prohibition of the provision of consulting services on investment products,

9.5

If the provision of research services cannot be separated from the provision of non-research services and kept at arm's length, this would give rise to a conflict of interest that should be avoided.

10. Disclosure Documents

SQM Research is responsible for ensuring that all relevant disclosure documents comply with the content requirements set out in the Act and, for the purposes of this policy, any provision requiring the disclosure of the benefits and commissions.

11. Wholesale Clients and Retail Clients

11.1

The conflicts management obligation applies equally to services provided to retail and wholesale clients. Please note that SQM's Australian Financial Services Licence is a 'wholesale' licence only.

11.2

However, in some cases, the disclosure SQM Research needs to give to a wholesale client to comply with the law will be less detailed than is required for a retail client.

11.3

When determining the disclosure that should be provided, SQM Research considers the following factors:

1. the level of financial sophistication of the client;
2. the extent to which third persons are likely to rely, directly or indirectly, on the service;
3. how much the client already actually knows about the specific conflict; and
4. the complexity of the service.

12. Monitoring

The Compliance Officer will monitor compliance with this section through a number of different methods:

1. internal reporting;
2. training of staff with the aim of educating them to identify and report breaches which may arise because of a conflict of interest;
3. if the Complaints Handling Officer is not the Compliance Officer, the Complaints Handling Officer must be trained to report any allegations that SQM Research or a representative of SQM Research has a conflict of interest to Compliance Officer; and
4. the Compliance Officer must review the Complaints Register each quarter to identify whether any disputes are a result of conflicts of interest between SQM Research (including its representatives) and customers.

13. Breach of the Policy

13.1

All officers and employees are expected to act in compliance with the Conflicts of Interest Policy at all times.

13.2

Non-compliance of this policy and/ or intentionally failing to report instances of non-compliance of this policy may result in disciplinary action.

14. Adoption and Review

14.1 Adoption

The SQM Research Conflicts of Interest Policy was adopted by the SQM Research Board of Directors on 1 October 2010.

14.2 Annual Review

The Compliance Officer will:

1. undertake a review of the Conflicts of Interest Policy in its entirety (which includes but is not limited to a comprehensive review and update of the Conflicts Register and any relevant client files and records), not less than once every 12 months.
2. schedule a Director's meeting with the Head of Research upon completion of the annual review and prepare the Agenda for the relevant Board meeting;
3. prepare a written report on the above matter for the Director(s) and Head of Research to consider at the Director's meeting scheduled to update this policy. The written report must be circulated to all senior staff at least 2 business days before the relevant meeting.

14.3

Upon approval by the Director(s), the Compliance Officer will circulate the updated Conflicts of Interest Policy to the business and will be responsible for educating relevant officers, employees and representatives to ensure they understand the meaning of "conflicts of interest" and the procedures outlined in this policy.

14.4 Itemising New Conflicts on Meeting Agendas and Calling Emergency Meetings

Where a new and material conflict of interest has arisen, or has been identified, during the course of the year, the Compliance Officer is responsible for placing that conflict of interest on the agenda for the next scheduled meeting of the Directors and preparing a written report for the Directors to consider. Likewise, the written report must be circulated to all directors at least 2 business days before the relevant meeting.

14.5

If the conflict of interest identified is of a serious nature, the Compliance Officer must notify the Directors immediately of the existence and nature of that conflict. It is for the Directors to then decide whether to call an urgent meeting to consider the issue. If the Directors do not call a meeting, the Compliance Officer must follow the procedures set out in paragraph 14.4.

14.6 Internal Reporting by Representatives

Directors and other representatives such as managers or other employees who will be involved in the provision of financial services under the AFS Licence must on commencement of employment, and at least every 12 months thereafter, disclose:

1. interests (including beneficial interests) in securities, of themselves and their associates, in entities providing services to SQM Research;
2. interests (including beneficial interests) in any relevant product traded by the representative or his or her associates;
3. any transactions that are:
 - a. entered into with SQM Research by the representative's associates; and
 - b. acquisitions of property from, or disposals of property to, SQM Research by such associates;
4. the representative's directorships of any company;
5. transactions in which interests in securities, or loans, are acquired by the representative or his or her associates; and
6. any outside business interests of the representative.

14.7

All staff are required to disclose personal interest to the Compliance officer. The Compliance Officer must maintain a central registry of all relevant interest disclosure documents. Failure to comply with the requirement to disclose and update the disclosure as required, without adequate reason, will be treated as a compliance breach by the representative.

14.8 External Review

Where SQM Research considers necessary, it may engage the services of an internal or external auditor or other independent person to review the arrangements set out in this compliance manual and identify any serious or material conflicts of interest.

15. Retention of Documentation

SQM Research must retain records of the following for at least 7 years:

1. conflicts identified and action taken;
2. any reports given to the Directors, SQM Research shareholders or senior management about conflicts of interest matters; and
3. copies of written conflicts of interest disclosures given to clients or the public as a whole.

Annexure A

Table of Conflicts of Interest SQM Research Conflict of Interest Register

Annexure A - Table of Conflicts of Interest SQM Research Conflict of Interest Register

No	Identification of conflicts of interest	Evaluation of conflicts of interest			Management of conflicts of interest
		Level of consequence			
1	Documentation	Medium	Medium	Medium	<ul style="list-style-type: none"> All staff are required to read SQM Research's Conflicts of Interest Policy on induction. Policies outlined within the plan are subject to regular auditing and is subject to annual review.
2	Monitoring compliance	Low	Low	Low	<ul style="list-style-type: none"> SQM Research's Compliance & Risk Management Officer (CRM) is responsible for ongoing monitoring of SQM Research's conflict management policy. The CRM reports monthly to SQM Research's Compliance Committee. Should any instances arise where the CRM also acts as an analyst involved in assigning product ratings, the CRM is prohibited from signing off on any conflict management issues relating to the issuance of that rating.
3	Communication	Low	Medium	Low	<ul style="list-style-type: none"> SQM Research maintains a communications policy relevant to dealing with both internal communications and external parties. Key principals are a) research ratings must be communicated to SQM Research clients before they can be released to outside parties or product issuers and b) communications between research staff and product issuers during the review process must ensure information provided to product issuers is controlled.
4	Information barriers	Low	Low	Low	<ul style="list-style-type: none"> SQM Research places information barriers between business units that are espoused to potential conflicts of interest. Principally these information barriers are in the form of analysts being separated from research pricing decisions. Analysts are also prohibited from being involved in any non-research services. SQM Research does not undertake any investment banking, corporate advisory, dealing services, underwriting or market making services and is not an investment manager of any financial products.
5	Approval before distribution	Medium	Medium	Medium	<ul style="list-style-type: none"> The release and publication of all research reports must be authorised by both an experienced supervisor and SQM Research's Research Committee. Reports are also subject to peer review by other analysts. Written records of review and approval decision are maintained by SQM Research and report authorisation is listed on each Product Assessment issued.
6	Provision of non-research services	Low	Low	Low	<ul style="list-style-type: none"> SQM Research's conflict of interests' policy details how and when non-research services may be provided to a product issuer who has (or is likely to in the future), receive research. Non-research services may include consulting on wider industry issues; however the policy expressly prohibits Analyst from providing non-research services or SQM Research from providing consulting services on investment products.
7	Benefits and remuneration	High	Low	Low	<ul style="list-style-type: none"> SQM Research provides services to wholesale clients (financial advisers) via subscription to its website. SQM Research charges standard fees for these services which are tailored in relation to the depth of services provided. SQM Research also undertakes Issuer paid research where SQM Research receives remuneration for services relating to the provision of third party reviews of fund managers products (SQM Research Product Assessments). Remuneration for these reviews is undertaken at a fixed price which is payable upfront prior to the commencement of the assessment. Standard pricing may vary depending on the asset class, but is fixed within that asset class and therefore consistent for all managers within an asset class (sector). Each SQM Research Product Assessment is clearly marked with the name of the entity that has paid to undertake a Product Assessment. Remuneration for Product Assessments is not linked to the ratings outcome. Neither SQM Research nor its directors or employees receive any commissions or remunerations based on transaction volumes, gifts or any other benefits from an issuer of a financial product that may materially influence the direction of reports.
8	Trading restrictions	Medium	Low	Low	<ul style="list-style-type: none"> SQM Research's analysts are not prohibited from holding interests in rated products however, any trading must be properly approved and subject to SQM Research's Trading Policy. The Trading Policy extends to holdings in any related companies which may benefit either directly or indirectly from the operations of a rated product (for example, shares in ASX listed fund managers). Any holdings by analysts are disclosed in the relevant Product Assessment. If potential conflicts are considered to be unable to be managed according to the compliance measure available, SQM Research will, at its discretion, either deny trading approval or ensure that the analyst does not cover the investment and that appropriate information barriers are in place.
9	Reports based on 'reasonable ground'	Medium	Medium	Medium	<ul style="list-style-type: none"> In each report, the analyst certifies that the views expressed accurately reflect their personal, professional opinion about the financial product.

10	Reports for 'proper purpose'	Medium	Medium	Medium	<ul style="list-style-type: none"> • SQM Research does not undertake any investment banking, corporate advisory or dealing activities, reducing any potential for conflicts regarding the appropriateness of ratings versus any other corporate business.
11	Associations or relationships	Medium	Medium	Medium	<ul style="list-style-type: none"> • SQM Research maintains strict guidelines on any relationships between itself and product issuers or fund managers outside the contractual agreements to provide research ratings. SQM Research does not provide any underwriting, managerial, consultancy or market making services to product issuers or fund managers. SQM Research has no related party or other association links with product issuers or fund managers. SQM Research may at times engage in contractual agreements with some product issuers as corporate clients (e.g. a large financial entity may have one business unit that is a product issuer and another unit which offers financial planning services who become a subscriber client to SQM Research's research). Any such corporate relationships are managed according to SQM Research's Conflict of Interest policy and disclosed in the relevant Product Assessments.
12	Assistance provided by product issuers	Low	Low	Low	<ul style="list-style-type: none"> • SQM Research does not permit product issuers access to ratings models or to edit research reports directly. Assistance is generally limited to providing research materials and access to management staff for interviews. Product Issuers involved in Real Assets may facilitate physical inspections of such assets where required.
13	Remuneration practices of the business The receiving of benefits, compensation, commission or fees from issuing the products/ services provided.	High	High	High	Research of investment products operates under the 'manager pays' system. Conflict is managed in 4 key ways; <ul style="list-style-type: none"> • SQM Research publishes the distribution of ratings statistics on the number of ratings awarded. This allows external parties to judge the transparency of our system with regard to ratings undertaken. • Research of investment products is remunerated under a flat fixed fee payable up front in full before research results are released. Outcome of the rating has no bearing on the fee charged. • Fees are standardised between asset classes. • Fund managers are not informed of the rating until the report has been released to SQM Research's clients. • SQM Research is transparent regarding the source of payments from fund managers in all research reports. • Fee determination is separate from functions performed by analysts.
14	Other disclosure	High	High	High	Research of investment products operates under the 'manager pays' system. Conflict is managed in 4 key ways; <ul style="list-style-type: none"> • SQM Research's research reports contain specific disclosure regarding: • Any holdings (if any) held by analysts; • Any benefits (if any) likely to be received from the report; • Relationship (if any) to the product issuer; • Date the report was written. • State the reasons behind the recommendations/ rating. • Additional disclosure may be made outside of the research report in separate documents through the SQM Research website relating to: • Status of current reports • The proportion of each rating issued compared to the market and within the ratings group; • Explanation of the rating systems and definitions.
15	Treatment of clients fairly By any of the following, SQM Research may be providing a financial service in a manner that unfairly puts the interests of SQM Research or its representatives or associates ahead of its clients.				
15.1	SQM Research may misrepresent past performance or downplays risks, to attract potential clients (research subscribers).	Low	Low	Low	<ul style="list-style-type: none"> • SQM Research does not undertake any investment banking, corporate advisory or dealing activities. Subscriber clients rely on the accuracy of our research to aid the investment decision making process. SQM Research's interests are in providing full illumination of the risks and true performance of an investment product in order to remain credible and secure more business from subscriber clients.
15.2	SQM Research advises a client to purchase a product in which SQM Research has a commercial interest.	Low	Low	Low	<ul style="list-style-type: none"> • SQM Research does not manage or hold investment products and does not undertake any investment banking, corporate advisory or dealing activities.

15.3	Allowing certain clients to be treated more favourably or with priority, in order to acquire a gain or advantage that adversely affects the interests of other clients.	Low	Low	Low	<ul style="list-style-type: none"> • SQM Research does not manage or hold investment products and does not undertake any investment banking, corporate advisory or dealing activities. • SQM Research encourages analyst rotation within the Research team to reduce the risk of analysts becoming too familiar or close to the products and product issuers under review, which may give rise to conflicts of interest. Analyst rotation is achieved by having all trainee analysts (Graduate Analysts) rotate through all asset class sectors over their initial two to three year period in addition to all analysts rotating from covering the same fund / fund manager for a period of no greater than 3 years. In circumstances where analyst rotation is not practical due to the need to develop or utilise specialist knowledge and expertise in particular areas, SQM Research relies on internal compliance measures for the continued management and evaluation of potential conflicts of interest. • SQM Research prohibits any changes to be made to client portfolios from the commencement of an internal ratings meeting until a client release is published, for all financial products which are subject to the relevant sector review. Exceptional circumstances may apply and are subject to approval from the Compliance Committee.
16	Preferential treatment of representatives or associates				
16.1	By any of the following, SQM Research may be permitting a representative or an associate to acquire a gain or advantage that adversely affects the interests of clients.	High	Medium	Medium	<ul style="list-style-type: none"> • Any analysis is exposed to the risk of an analyst's viewpoint not being objective. The combination of conflict of interest policies and research oversight is designed to mitigate these risks.
16.2	Trading for a representative or associate at a lower interest rate or charging reduced fees.	Low	Low	Low	<ul style="list-style-type: none"> • SQM Research does not manage or hold investment products and does not undertake any investment banking, corporate advisory or dealing activities.
16.3	Giving any form of priority to a representative or associate who is a client.	Low	Low	Low	<ul style="list-style-type: none"> • SQM Research does not manage or hold investment products and does not undertake any investment banking, corporate advisory or dealing activities.
16.4	Permitting a gain or advantage to be obtained by a representative or associate by trading at rates more favourable than market rates.	Low	Low	Low	<ul style="list-style-type: none"> • SQM Research does not manage or hold investment products and does not undertake any investment banking, corporate advisory or dealing activities.

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