

# Conflicts of Interest Policy

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## Contents

<b>1. Objective</b> .....	2
<b>2. What Is A Conflict Of Interest?</b> .....	2
<b>3. Conflicts Management Obligation</b> .....	2
<b>4. In What Context Can A Conflict Of Interest Arise?</b> .....	2
<b>5. Mechanisms for Managing Conflicts of Interest</b> .....	2
<b>7. Avoiding Conflicts of Interest</b> .....	3
<b>8. Disclosing Conflicts of Interests</b> .....	3
<b>9. Provision of non-research services</b> .....	4
<b>10. Disclosure</b> .....	4
<b>11. Wholesale Clients and Retail Clients</b> .....	5
<b>12. Monitoring</b> .....	5
<b>13. Breach of the Policy</b> .....	5
<b>14. Adoption and Review</b> .....	6
<b>15. Retention of Documentation</b> .....	6
<b>Annexure A - Table of Identifiable Conflicts of Interest</b> .....	7

## 1. Objective

The 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?

For the purposes of this policy, conflicts of interest are circumstances where some or all of the interests of people (clients) to whom a licensee (or its representative) provides financial services are inconsistent with, or diverge from, some or all of the interests of the licensee or its representatives.

## 3. Conflicts Management Obligation

### 3.1

As the holder of an AFSL and in accordance with section 912A(1) of the Corporations Act 2001, 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.

### 3.2

For the purposes of this policy, SQM Research acknowledges and accepts the obligation to manage conflicts of interest under the Act.

### 3.3

SQM Research acknowledges ASIC guidance 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. Please refer to the Annexure A for details.

## 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 conflicts of interest are adequately managed.

### 5.2

SQM Research has adopted, 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.

### 6.3

#### Assessing and Evaluating Conflicts of Interest

1. The Compliance Officer is responsible for assessing and evaluating conflicts of interest. The evaluation must be included in any written report prepared for the Directors and Senior Management 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 new 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 to 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.

## 7. Avoiding Conflicts of Interest

### 7.1

Some conflicts of interest have such a serious potential impact on a licensee or its clients that the only way to adequately manage those conflicts 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. Please refer to Annexure A.

## 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

SQM will consider among other measures, whether they should:

- a) 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 (i.e. a 'quiet period'); and/or
- b) fully disclose in relevant research reports the nature of any non-research services provided to a product issuer.

### 9.5

If research cannot be separated from other services to issuers, or 'add on' consultancy services cannot be provided at arm's length from the research service, the conflict should be avoided.

## 10. Disclosure

### 10.1

SQM's clients are Funds Managers and Financial Planners with a higher level of financial understanding and sophistication of the industry and its products. Each of our reports contains a disclosure section.

When determining the disclosure that should be provided, SQM Research uses the following principles:

1. *the level of financial sophistication of the client* – SQM Research clients are Funds Managers and Financial Planners who are expected to have a high level of financial understanding and sophistication
2. *the extent to which third persons are likely to rely, directly or indirectly, on the service* – SQM Research contractual arrangements with fund managers and product issuers specifically state that SQM Research reports can only be distributed to financial planners and other wholesale clients and further, that such reports must not be distributed to the general public or retail investors.
3. *how much the client already actually knows about the specific conflict* – any relevant conflicts are disclosed by SQM Research in the report and as such are available to the client upon receipt of the report
4. *the complexity of the service* – the SQM Research rating is based on a simple 5-star scale that is disclosed and explained in the report, the report itself is a detailed review of the product in a structured, straightforward format able to be understood by SQM Research clients.
5. *Paid-up subscribers* - SQM Research presumes and expects the readers of its research to be fully paid subscribers. SQM Research is not under any obligation to update any non-subscribers on rated investment products and rated investment managers.

## 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

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.

## 12. Monitoring

### 12.1

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

1. internal reporting;
2. educating staff to identify and report breaches which may arise because of a conflict of interest;
3. the Compliance Officer must review and record in the Complaints Register, any complaints as they arise 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 with this policy and/ or intentionally failing to report instances of non-compliance with this policy may result in disciplinary action.

## 14. Adoption and Review

### 14.1 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. prepare a written report on the above matter for the Director(s) and Senior Management. The written report must be circulated to all senior staff.

### 14.2

Upon approval by the Director(s), the Compliance Officer will circulate (if changed) 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.

### 14.3 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. material interests in securities in entities providing services to SQM Research;
2. material interests in any relevant product traded by the representative.
3. the representative's directorships of any company if relevant;

### 14.4

All staff are required to disclose a material interest in any currently rated fund 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.

## 15. Retention of Documentation

### 15.1

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.

## Annexure A - Table of Identifiable Conflicts of Interest

No	Identification of conflicts of interest	Management of conflicts of interest
1	Documentation	<ul style="list-style-type: none"> <li>All staff are required to read SQM Research's Conflicts of Interest Policy on induction.</li> </ul>
2	Monitoring compliance	<ul style="list-style-type: none"> <li>SQM Research's Compliance Officer (CO) is responsible for ongoing monitoring of SQM Research's conflict management policy. See Section 12 of this policy.</li> </ul>
3	Ratings Notification	<ul style="list-style-type: none"> <li>SQM Research does not communicate with Investment Managers until after a draft is completed and checked for factual errors. Ratings are published on the SQM Research subscriptions website within 2 business days of notification of the fund rating to the fund manager.</li> </ul>
4	Information barriers	<ul style="list-style-type: none"> <li>SQM Research places information barriers between business units that are exposed to potential conflicts of interest. Principally these information barriers are in the form of analysts being separated from research pricing decisions. 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.</li> </ul>
5	Approval before distribution	<ul style="list-style-type: none"> <li>The release and publication of all research reports must be authorised by an experienced supervisor.</li> </ul>
6	Provision of non-research services	<ul style="list-style-type: none"> <li>SQM Research's conflict of interests' policy details how non-research services may be provided to a product issuer who has (or is likely to in the future), receive research. Please see section 9.</li> </ul>
7	Benefits and remuneration	<ul style="list-style-type: none"> <li>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.</li> <li>SQM Research also undertakes Issuer paid research where SQM Research receives remuneration for services relating to the provision of third party reviews of fund manager's and/or the managers themselves. Remuneration for these reviews is undertaken at a fixed price which is payable upfront prior to the commencement of the assessment. Pricing may vary depending on the asset class. Each SQM Review is clearly marked with the following statement: <ul style="list-style-type: none"> <li>SQM Research has received a fee from the fund manager, the product issuer or other related party for his report and rating.</li> </ul> </li> <li>Remuneration for Product Reviews are not linked to the ratings outcome. Neither SQM Research nor its directors or employees receive any commissions or remunerations based on funds flows.</li> </ul>
8	Investment Holdings	<ul style="list-style-type: none"> <li>Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the Analyst(s) may hold financial product(s) referred to in this document, but SQM considers such holding not to be sufficiently material to compromise the rating or advice. Analyst holding may change during the life of the report. The Analyst(s) certify the views expressed in the report accurately reflect their professional opinion about the matters and financial product(s) to which the report refers to.</li> </ul>
9	Reports based on 'professional opinion'	<ul style="list-style-type: none"> <li>In each report, the analyst certifies that the views expressed accurately reflect their professional opinion about the financial product.</li> </ul>
10	Reports for 'proper purpose'	<ul style="list-style-type: none"> <li>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.</li> </ul>
11	Associations or relationships	<ul style="list-style-type: none"> <li>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 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.</li> </ul>
12	Assistance provided by product issuers	<ul style="list-style-type: none"> <li>SQM Research does not permit product issuers access to ratings models or to edit research reports directly. Assistance is generally limited to providing research material, fact checking of draft reports and access to management staff for interviews. Product Issuers involved in Real Assets may facilitate physical inspections of such assets where required.</li> </ul>
13	Remuneration practices of the business The receiving of benefits, compensation, commission or fees from issuing the products/ services provided.	<p>Research of investment products operates under the 'manager pays' system. Conflict is managed as follows:</p> <ul style="list-style-type: none"> <li>SQM Research has available on request 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.</li> <li>Research of investment products is remunerated under a flat fee payable up front in full before the initial manager interviews. The outcome of the rating has no bearing on the fee charged.</li> <li>SQM Research does not communicate with Investment Managers until after a draft is completed and checked for factual errors. Ratings are published on the SQM Research subscriptions website within 2 business days of notification of the fund rating to the fund manager.</li> <li>Fee determination is separate from functions performed by analysts.</li> </ul>