

# SAM UK Compliance

## Conflict of Interest Policy

March 2023



## Contents

1. Introduction and Overview	3
2. SAM UK's Investment Management and Trading Activities	3
3. Santander Group, Organisational Structure and Intercompany Arrangements	6
4. Employee Arrangements	7

## 1. Introduction and Overview

This policy provides clients with a summary description of the systems and controls which Santander Asset Management UK Limited (the "Company" or "SAM UK") has in place to manage *Conflicts of Interest*. Specifically, it sets out the Company's arrangements for the identification and management of Conflicts, including the disclosure of Conflicts which are inherent in the business model of the Company and thus cannot always be avoided or prevented.

SAM UK undertakes investment management activity on behalf of a number of clients (collective investment schemes and mandates), and does not perform any proprietary trading activity (i.e., trading on its own balance sheet) other than providing seed capital for new funds/share classes. Therefore, the majority of the *Conflicts of Interest* which arise are inherent in the Investment Management activities that it undertakes, and between the interests of SAM UK or the wider SAM Group, the interests of SAM UK Directors and Employees, and the interests of SAM UK's Clients.

SAM UK has a general policy and is committed to take all reasonable steps to identify and avoid, wherever possible, *Conflicts of Interest* that may arise, to avoid any compromise or detriment to the trust that clients place on the Company, or the outcomes they receive by investing in the Company's products or services.

This *Conflicts of Interest Policy* which is communicated to all employees, outlines expectations for the Company and its employees to identify, assess, report, and manage all conflicts which arise through the course of business, whether they are inherent or caused by specific circumstances related to SAM UK and/or its Directors and Employees.

The Company maintains both a record of all inherent Conflicts of Interests of the Company, considering its strategy, business model and services/products ("COI Matrix"); and a register of specific Conflicts of Interests declared by its employees ("COI Register"). Both the COI Matrix and COI Register are overseen by the Risk & Compliance Committee (RCC) and are subject to periodic review/oversight by the Company's Board of Directors.

Whilst SAM UK has a duty to act in the best interest of clients, there may be circumstances where there are inherent conflicts of interest between the parties outlined above, or indeed between the interests of different clients of SAM UK. These inherent conflicts in the Company's business which cannot be prevented are explained in this policy, along with current organisational and administrative arrangements in place which aim to safeguard the interests of SAM UK's Clients to the fullest extent possible.

## 2. SAM UK's Investment Management and Trading Activities

SAM UK's main activity is to act as the Authorised Fund Manager (AFM) to a number of regulated collective investment schemes as well as provide discretionary investment management, advisory and model portfolio advisory services to several clients under separate agreements.

These services are provided by several Investment Management Teams at SAM UK, who are functionally distinct from each other in their investment research activities, proposals, and implementation of investment decisions. In general, the Company's activities have similar objectives and, in many cases, similar strategies, particularly where a range of funds are managed by the same investment team, however from time to time there may be situations which give rise to conflicts between these investment management activities and their clients.

As part of its Investment Management model, and as disclosed in each prospectus, SAM UK may delegate investment management, where it does not have the inhouse capabilities to manage those assets and/or strategies, of specific asset classes and strategies to third party investment managers, or 'TPIMs' for short. TPIMs include affiliated entities of SAM UK and SAM UK will typically seek to appoint an affiliated TPIM, subject

to robust due diligence and onboarding protocols. If such capabilities don't exist within the wider SAM group, then existing TPIMs appointed by SAM UK will be considered via due diligence after which new TPIM relationships would be considered. To provide assurance that when making such decisions that SAM UK acts in the interest of its funds, shareholders and end customers at all times, new appointments or changes to TPIMs require formal approval from the SAM UK Board, taking into account any actual, potential or perceived conflicts.

The provision of services for more than one client can result in one client being disadvantaged against the other. Examples could include the allocation of investment opportunities or orders, cross trades, application of customer order priority principle, portfolio manager investing in different parts of an issuer's capital structure, omitting a client portfolio from inclusion in an investment opportunity, one client order(s) to impacting a share price to detriment of another client. SAM UK aims to mitigate these potential conflict of interest risks between clients by establishing controls and policies including:

- Cross trades requiring R&C approval only for funds we managed
- Order Execution Policy in place that applies to funds we manage
- Trade Allocation Procedures being in place
- Monitoring of execution quality and other surveillance activities designed to detect market abuse risks, including front running

Where SAM UK sub-delegates investment management to third parties, these arrangements are performed in line with the third party's policy/procedure, which SAM UK assesses through its initial and ongoing due diligence and oversight processes.

The fees which SAM UK earns through its investment management activities vary with the type of fund, strategy and/or asset class: the Company does not operate performance-based fees on any of its clients' accounts. Therefore, clients may obtain services from SAM UK across its product range which vary in fees charged, which generally reflects the different in fund, strategy and/or asset class. In its capacity as manufacturer or co-manufacturer of products and services, SAM UK may have an inherent conflict of interest in whether or not products and services have in place ongoing charges figure (OCF) limits. OCF is what an investor pays over a year for as long as the investment is held, relates to the running cost of the fund/portfolio and is deducted from the fund/portfolio's daily pricing and excludes transaction costs. If an OCF limit is set, SAM UK would compensate the fund/portfolio for any OCF that is in excess of the disclosed limit could result in a potential conflict of interest when, for example, assessing whether a limit should be applied or not, at what level it is set at. This conflict of interest is managed by SAM UK as costs and charges are analysed as part of product or services initial design before it is launched and during its ongoing review to confirm that any potential excess costs borne by the Company does not influence customer outcomes.

Without adequate control processes, SAM UK may be incentivised to favour one client over another, for example due to greater fees earned from one fund/account over another or where a portfolio manager's remuneration is based on or is higher for one client account compared to another. In line with regulatory requirements, the Company's *Assessment of Value* includes a review of comparable services as well as performance, with the Company reaching a conclusion as to overall value delivered for each Fund, and where relevant share class. Classes of Units are also assessed as to whether customers are in the cheapest class available, taking into account any specific terms applicable. Furthermore, investment team scorecards are in place for variable remuneration - aligning customer outcomes with incentivisation.

Assessment of Value (and the new Consumer Duty which comes into force in July 2023) also requires SAM UK to review its funds and investment services to ensure that they meet the needs of an identified target market and ensure that the benefits of those products and services are reasonable relative to their costs so that they provide fair value to customers. To ensure responsible and sustainable decision making by SAM UK in relation to its Assessment of Value for each fund / share class, there is an inherent conflict of interest

between SAM UK and investors in the Funds, and potentially between funds. In certain qualitative assessments relating to pricing structures (including passing on any actual or perceived economies of scale) and to inform SAM UK's decision making, the Board will consider its financial resilience (capital and liquidity), associated risk appetite and Firm's strategic plans to invest in the business to meet evolving customer needs and continue to provide good customer outcomes at a holistic level as well as at a Fund specific level

SAM UK does not engage in proprietary trading activities but does permit the use of seed capital in certain funds in specific circumstances to launch new funds and/or share classes. The use of seed capital is governed by a specific policy and is subject to dedicated monitoring to ensure this remains within the parameters and limits set within the Policy and is overseen by the Company's Product Forum.

To mitigate the risk of perceived or actual conflicts of interest which may arise from dealing activity which arises from investment decisions made on behalf of its clients or funds, SAM UK has implemented a policy that any commissions paid from its funds or clients' accounts for trading activity is solely for execution services, and no other form of service such as investment research, provision of data for example. SAM UK primarily delegates its dealing activity to another SAM entity within the group as disclosed in its *Order Execution Policy* and ensures that its policy standards are observed through this delegation. All research that SAM UK receives is paid for directly from SAM UK financial resources and SAM UK doesn't receive any payments or inducements from any execution or trading venue.

Where a SAM UK fund has a product feature to pay out income earned in a smoothed manner over the course of its financial year, there are perceived or actual conflicts of interest related to the rate at which income payments are set. SAM UK's management of the rate at which income is paid out will seek to be in compliance, at all times, with regulation that SAM UK must comply with as an AFM of the Fund. To mitigate the risk of perceived or actual conflicts of interest related to the income rate setting, both at the start and during the Fund's financial year, the prospectus for each fund notes that the smoothing of income may result in income distributions being higher or lower than the actual income earned by the Fund at any point during the Fund's financial year, however the overall income paid by the Fund cannot exceed the level of income earned by the Fund.

SAM UK have in place an exclusivity agreement with Allfunds bank to place trades in collective investment scheme units in order to obtain better negotiated prices. The difference in negotiated collective unit prices which are obtained are given to the Funds to the benefit of customer interests, and not the interests of the Company, with Allfunds Bank receiving a commission fee for intermediation of the deal and administrative services, which is ultimately a cost borne by the benefiting fund. Where the underlying fund is a SAM fund, Allfunds Banks charge a smaller commission fee for administration services related to the execution of the order (with SAM UK waiving its AMC when one SAM UK fund invests in another SAM UK fund).

SAM UK may invest in other collective schemes operated by SAM UK or the SAM Group, which may give rise to a conflict of interest between the interest of SAM and its clients. Such investments must be explicitly permitted by the prospectuses and are disclosed through the actual holdings shown on the KIIDs/Factsheets. These arrangements are managed and monitored through the in-house funds policy, which sets out the principles for investing in own funds and the control framework which is in place to manage risks which are inherent in this activity. Further organisational and administrative arrangements are in place as follows:

- Investment managers must provide a *clear trade rationale for all SAM fund subscriptions/redemptions* which details how the investment is in the interest of the fund and its clients.
- SAM UK 'rebates' 100% of the in-house investment Annual Management Charge ("AMC") for SAM UK funds (but the funds may still pay commissions relating to execution of these order types from its OCF), and when investing in SAM affiliated funds, the max AMC permitted is Investment Management costs for portfolio management under the Globally established Transfer Pricing Policy,

which means that SAM group makes revenue from both funds in these circumstances.

- *Investment manager remuneration is also linked to fund performance* over the longer term through scorecards (see Employee Arrangements below) and therefore investment managers are incentivised in line with customer interests. This helps manage (but not mitigate/avoid) the conflict with SAM's commercial interest further by ensuring that investment managers have the freedom and incentive to invest/disinvest in in house funds in a way which looks to ensure that the clients' interest are prioritised ahead of the Company's interests.

Inherent in its investment management activities are *voting rights* as part of the wider engagement with individual companies, which could give rise to conflicts of interest between the company, its clients and its employees where voting may be solicited by a company with whom SAM UK (or its employees) have a business or personal relationship. In line with its SRD II statement, SAM UK doesn't directly manage any equity funds in the UK due to its delegated model to third party investment managers for its equity strategies. As such SAM UK does not itself directly control the individual investment decisions made to invest directly in shares (or derivatives thereof) and therefore has delegated voting rights to its TPIMs. However, SAM continues to evaluate Shareholder Engagement arrangements of those managers through its ongoing due diligence and oversight arrangements.

During its investment management activities SAM UK may be restricted from holding assets on behalf of clients which could adversely impact customers outcomes for a number of reasons, including coming into possession insider information, exceeding aggregated holding limits or other internal restrictions relating to Combating the Financing of Terrorism. SAM UK operates several Global and Local Policies which are designed to meet its regulatory obligations which could adversely impact a particular client/fund at a particular time. For example, if an investee CIS contracts and results in SAM UK breaching the aggregate concentration risks, even when the level of concentration on a client-by-client level may remain prudent, to evidence compliance on an aggregate, SAM UK would (pro-rata) sell down to bring the aggregate level in compliance. Although overall the policy is to protect the interests of funds/clients overall, there could be benefits to one or more client/fund individually.

Furthermore, in line with its *Financial Crime Policy*, in situations where SAM UK does come into possession of material non-public information, a stop is placed on that issuer and any related securities through the restricted list maintained by Compliance. Issuers/Securities are placed and remain on the restricted list for client portfolios and directors/employees' personal transactions for as long as SAM UK holds this non-public information. Once this information is revealed to the market, Compliance would lift the restriction and allow client portfolios and directors/employees to trade again on their accounts.

SAM UK's suppliers may also be issuers of securities that SAM UK are interested in investing in which may give rise to a potential/perceived conflict of interest between SAM's commercial aims and customer outcomes. SAM UK looks to mitigate this conflict through several policies and processes including,

- All trades routed to SAM Spain centralised dealing desk require a formal trade rationale requirement prior to execution. For new IPOs, Front office must declare to SAM's R&C whether Santander is involved with the issue (e.g., corporate advisor/underwriter etc.).
- Third Party Risk Management oversight controls are in place, including approvals for entering into contracts, and appropriate contractual agreement for any consultant relationships (and ensuring only relevant intellectual property is shared).
- All employees must declare all actual, potential, or perceived conflict, and receive COI training as part of induction training and periodic compliance training thereafter.

### 3. Santander Group, Organisational Structure and Intercompany Arrangements

SAM UK is part of a global asset management firm and a wider international banking group, which results in the need for alignment to wider global strategies, and on a day-to-day basis means that SAM UK Senior Management have reporting lines to individuals outside of SAM UK. SAM UK has several organisational arrangements in place to mitigate the potential conflicts of interest which may arise due to operating as part of a Group, including:

- An effective and established Board with a balanced composition of *at least 25% Independent Non-Executive* Directors, one of whom is allocated the prescribed responsibility for AFM Assessment of Value under the Senior Managers and Certification Regime and therefore has personal accountability to always act in the best interests of Clients.
- The Board are reminded of their duties under *S172 of the Companies Act* and should be most likely to promote the success of the company for the benefit of its stakeholders (including but not limited to its employees, shareholders, clients).
- Clear documentation of the *firms Governance Arrangements*, including delegations and decision-making authority, including those items reserved for the Board of Directors in line with the items outlined above.
- Three Lines of Defence model which provides a framework for independent thought and challenge of business ideas and practices.
- *Clear role profiles for all employees*, including those employees who may provide services to other group entities, to ensure that the interests of the UK firm and its clients are always maintained.

As part of its Investment Management model, and as disclosed in each prospectus, SAM UK may delegate the management of specific asset classes and strategies to TPIMs (including affiliated entities) where it does not have the inhouse capabilities to manage those assets and/or strategies. As discussed earlier in this document, SAM UK may delegate (or be the recipient of) discretionary portfolio management and advisory services to/from other SAM entities, which may give rise to a conflict of interest between the fund, SAM UK and other SAM Group entities. In these circumstances, SAM UK applies the same investment due diligence and oversight model to other SAM Group entities as investment managers who are external to the SAM Group, and all services are documented in a consistent investment management agreement and negotiated on an arm's length basis. Investment performance and outcomes are monitored in a consistent manner by the SAM UK Senior Management Team and Board, and all funds are subject to the same annual Assessment of Value methodology and reporting, in accordance with the Company's regulatory obligations.

SAM UK act together with Santander UK Plc as the co-manufacturer of certain SAM UK Funds for which it is the AFM and as Santander UK Plc (or its subsidiaries) provide advisory and other distribution services, Santander UK Plc is also a unitholder across SAM UK funds (i.e. a commercial and a client/agent relationship exists). These funds are available on other distribution platforms; however the Santander UK Plc distribution relationship is the dominant relationship within the SAM UK business model and a conflict of interest could arise between the Santander Group and Customers. Where SAM UK provides investment services and activities to Santander UK Plc and there are potential or actual conflicts of interest that can't be managed with reasonable confidence due to factors outside of SAM UK's control, SAM UK will disclose this to Santander UK Plc to allow it to make an informed decision. This could be an example of conflict of interest between the Santander Group and Customers. SAM UK has a formal Co-Manufacturing and Distribution Agreements in place to mitigate this conflict, and whilst joint governance exists between the parties to manage the relationship, all strategic product or distribution strategy change decisions remain under the fiduciary

accountability of the SAM UK Board, who provide and retain independence of mind regarding decisions impacting our customers, ensuring customer interests are prioritised.

As part of its dual role as both AFM and product manufacturer, SAM UK may during its business activities need to make product decisions which impacts its revenue streams or costs (including opportunity costs), which may give rise to conflicts of interest inherent in the integrated AFM business model. These conflicts could include failing to implement product change in a timely manner and in the best interest of its customers. As such, all product change is governed by Product Forum ("PF") which has representation from the first and second lines of defence.

The Terms of Reference of the PF specifically requires the committee member to ensure product decisions are made for the benefit of end customers. SAM UK Product Governance arrangement and outcomes are also subject to scrutiny from Internal Audit. An Value of Assessment is also undertaken to assess whether sufficient action(s) has been taken to deliver enhanced/additional value, with decisions being reviewed and challenged by the SAM UK Board and specifically the Independent Chairperson who has the prescribed responsibility and individual accountability to act in the best interest of investors under the SMCR. The Assessment of Value is reported publicly once a year.

## 4. Employee Arrangements

The Board of SAM UK has adopted the Santander Group General Code of Conduct that SAM UK's Directors and employees must comply with. The code establishes the fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, relationships with customers and suppliers, personal trading, inducements, inside information, bribery and corruption and conflicts of interest.

This general code of conduct and supporting policies which build on the requirements in this code of conduct, covers several areas where the personal interests of employees may create a conflict of interest with either that of the Company or its clients.

This includes Personal Account Dealing, which governs the personal investment transactions of employees within SAM UK. The General Code of Conduct and the Personal Account Dealing Policy allow directors and employees to trade securities for their own accounts, including the same securities as may be purchased or sold for client accounts. However, there is a process and control framework in place which employees must follow to ensure that this personal investment activity does not impact the outcomes achieved by trading for client accounts. The SAM UK policy(s) takes a risk-based approach and differentiates those employees who due to their professional activity may be exposed to insider information of otherwise sensitive information on SAM UK and categorises them as 'Enhanced Employees'.

Key requirements of the procedures in place to mitigate the potential conflicts of interest which may arise:

All employees (Enhanced and Non-enhanced) must report their personal account holdings to the Compliance and the Chief Risk Officer on an annual basis.

Enhanced persons must seek prior approval before implementing investment decisions on their personal account.

Annual attestation by employees that the list of holdings that they have disclosed fully represents all personal account transactions during the reported period.

To mitigate the risk of conflicts between the interests of SAM UK directors/employees, and it the Company and/or its clients, on appointment/hiring SAM UK requires all individuals to identify and disclose any other business dealings/directorships which may give rise to conflicts of interest and compromise their impartiality and/or SAM UK client interests, whether this is actual or perceived. This again forms part of the SAM UK Code of Conduct which documents the standards of behaviour and action required of all staff in the execution of

their contract of employment.

SAM UK Remuneration Policy and arrangements could act as an incentive for employees to take more risk or to put personal interest ahead of the interest of SAMs clients or funds. To mitigate this inherent conflict, SAM has designed and implemented a Global Remuneration Policy, which is reviewed annually by Compliance for alignment to the Remuneration Codes which SAM UK is subject to and is approved by the SAM UK Board. Key features of the policy including:

- Investment Manager scorecards (which determine quantitative elements of remuneration based on fund performance) reviewed by independent functions within SAM. The rewards are then based on multi-year performance elements to ensure individual outcomes are aligned to fund objectives and customer outcomes
- Employees subject to Remuneration Codes (Material Risk Takers) are identified and variable remuneration is subject to deferral provisions and claw back in specific circumstances.

In addition to our code of conduct, SAM UK has several policies which govern its approach to the giving or receipt of payments, donations, political contributions, gifts or entertainment, or other non-monetary benefits to or from third parties which may give rise to a conflict of interest between SAM UK, its employees, and its clients. These policies and the associated procedures are designed and monitored by Risk & Compliance to ensure that any item which could constitute an actual or perceived inducement is appropriately identified, assessed, managed, and reported. Risk & Compliance maintains a register of all activities under scope to ensure that items are viewed individually and holistically, and items such as donations and political contributions are either prohibited or retained for the discretion of the SAM UK Board of Directors.

Santander Asset Management UK Limited (Company Registration No. SC106669) is registered in Scotland at 287 St Vincent Street, Glasgow G2 5NB, United Kingdom. Authorised and regulated by the Financial Conduct Authority (FCA). FCA registered number 122491. You can check this on the Financial Services Register by visiting the FCA's website [www.fca.org.uk/register](http://www.fca.org.uk/register). Santander and the flame logo are registered trademarks.