

Research Policy: Conduct and Management of Conflicts of Interest

Introduction

The quality, precision and relevance of our equity research underlie our business model and inform our ability to best service our clients. Through continuous dialogue between our analysts we are able to gain a broader perspective on the markets and identify broader economic trends and their likely effect on the markets. We have developed a number of research and market commentary products which will always remain clear, fair and not misleading.

Analyst conduct

Analysts must issue objective research and recommendations that have a reasonable and adequate basis supported by thorough, diligent, and appropriate research and investigation.

Analysts must distinguish between fact and opinion and ensure that the information contained in their reports is clear and complete.

All research publications must contain, on the front page, the publication date, name of the author, job details and contact details. The analyst must certify that the content, conclusions, opinions and recommendations accurately represent his/her personal views.

Analysts have a responsibility to differentiate between fact and opinion and to be fair and impartial in their analysis. They must not let outside pressures threaten their impartiality or influence their research conclusions or recommendations. In addition, analysts must understand and respect legitimate constraints on dissemination of information by or access to company personnel.

Analysts may refer to a company's publicly disclosed information in order to pursue further research under the "mosaic" theory. The mosaic theory states that an analyst may assemble pieces of public and non-material, non-public information into a mosaic that provides valuable insights and may reveal material conclusions that may form the basis for investment recommendations and decisions. This is true even if those conclusions would have been material inside information had they been communicated directly to the analyst by the issuer. Under the mosaic theory, analysts are free to act on this collection, or mosaic, of information. The CFA Institute recognises the mosaic theory as a valid method of analysis. However, when using this method, analysts should disclose the details of the information and methodology used to arrive at their recommendation.

When preparing research reports and developing valuation models, analysts should clearly distinguish between information that the analyst is attributing directly to management and the analyst's interpretation of comments by management. Analysts should clearly identify any significant elements that have been included or excluded from their earnings estimate (e.g., one-time charges or gains, synergies from a merger). This approach allows investors to understand the differences in estimates and facilitates the comparison of estimates made on a similar basis.

Analysts are allowed to discuss their opinions with sales/trading and comment on market news so long as they do not disclose the content of forthcoming research reports, potential rating changes or any confidential information that is not publicly available.

Research recommendation

Analysts must take reasonable care to ensure that, in a *research recommendation*, at least:

- all substantially material sources are indicated, including, if appropriate, the issuer, and in particular whether the recommendation has been disclosed to that *issuer* and amended following this disclosure before dissemination;
- any basis of valuation or methodology used to evaluate a security, a derivative or an issuer, or to set a price target for a security or a derivative, is adequately summarised;
- the meaning of any recommendation made, such as "buy", "sell" or "hold", which may include the time horizon of the security or derivative to which the research recommendation relates, is adequately explained and any appropriate risk warning, including a sensitivity analysis of the relevant assumptions, indicated;
- reference is made to the planned frequency, if any, of updates of the research recommendation and to any major changes in the coverage policy previously announced;
- the date at which the research recommendation was first released for distribution is indicated clearly and prominently, as well as the relevant date and time for any security or derivative price mentioned; and
- if the substance of a research recommendation differs from the substance of an earlier research recommendation, concerning the same security, derivative or issuer issued during the 12-month period immediately preceding its release, this change and the date of the earlier research recommendation are indicated clearly and prominently.

Management of Conflicts of interest

The research department is physically separated from the sales/trading department and sales/trading should not be privy to the contents of planned research, nor of the intention to publish research, until the research has been formally issued. Research analysts may visit the trading floor but should conduct research away from the sales and trading areas to prevent the unauthorised flow of research information and to discourage inappropriate trading behaviour.

Incentive compensation

Analysts may be remunerated by a combination of base salary and discretionary bonuses. The level of an analyst's compensation for any given period is based upon:

- The profitability of the company
- The quality of the research and analysis
- Client feedback and rankings
- Management perception of individual performance and productivity
- Team cooperation

Analysts may not trade on their own account in securities in relation to which they prepare research. All employees are subject to the Staff Dealing policy.

Review and publication

The responsibility for the content of research recommendations rests primarily with the analyst having produced them. Compliance has oversight of all publications.

Basis of valuation/ methodology

Our assessment of valuation is based on one or more of the following: discounted future cash flows, absolute and relative multiples.

Meaning of any recommendation

Our recommendation structure is based on expected absolute upside/downside returns (%) over the 12 month horizon post issue of the specific report:

BUY – more than 15%

HOLD – between 15% and -5%

SELL – Less than -5%

Expected absolute returns are based on the share price at market close unless otherwise stated. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.