



CONFLICT OF INTEREST POLICY

CONFLICT OF INTEREST POLICY

Table of contents

1	Background	3
2	Overview	3
3	Definitions	3
4	Operational process for managing conflicts of interest	3
4.1	<i>Identification</i>	3
4.2	<i>Notification</i>	4
4.3	<i>Assessment / escalation</i>	4
4.4	<i>Resolution</i>	4
4.5	<i>Reporting / record keeping</i>	4
5	Business activities which may give rise to a conflict of interest	4
5.1	<i>Proprietary Trading</i>	4
5.2	<i>Personal account dealing</i>	5
5.3	<i>3rd party business interests</i>	5
5.4	<i>Use and distribution of investment research</i>	5
5.5	<i>Inducements</i>	5
5.6	<i>Offering of securities (primary issues)</i>	6
5.7	<i>Competing client interests</i>	6
5.8	<i>Inappropriate exchange of information</i>	6
6	Senior management control	7

1. Background

This document sets out E*Trade Securities Limited's (hereinafter referred to as the "Company") policy to effectively manage any conflicts of interest that may arise in carrying on its business.

This conflict of interest policy is established in accordance with the Markets in Financial Instruments Directive and the FSA Handbook. Its aim is to ensure that the Company's clients are treated fairly and at the highest level of integrity and that their interests are protected at all times.

This policy covers conflicts that may arise between the Company or an employee of the Company and its clients as well as between clients. The policy has been reviewed and approved by the Company's board of directors and is subject to monitoring by the Company's Compliance Department

The Company's senior management is responsible for ensuring that the Company's systems, controls and procedures are robust and adequate to identify and manage any conflict of interest which might arise in relation to its business. The Company's senior management also ensures that all the arrangements made under this policy operate effectively.

Where there is a risk of damage to a client's interest that can't be prevented the Company shall disclose the conflict of interest to the client, agree with the client the best way to protect the client's interest and ask for the client's consent before providing any services or taking any further action.

This policy takes into consideration the Company's organisation and the nature, scale and complexity of the business it conducts with its clients.

2. Overview

The Company has procedures in place to prevent or manage conflicts of interest. These procedures are regularly reviewed by the Compliance department and senior management in order to ensure that they are up to date, reflect best practice, cover all required business activities and regulations and are appropriately followed.

In order to identify a conflict of interest, the Company shall pay attention as to whether the Company, an employee or another client:

is likely to make a financial gain, or avoid a financial loss, at the expense of a client
has an interest in the outcome of a service provided to

the client which is distinct from the client's interest in that outcome
has a financial or other incentive to favour the interest of another client over the interest of the client
carries on the same business as the client

3. Definitions

"employee"

Means a permanent or temporary employee of the Company.

"family"

Means a family member or partner of the employee.

"senior management"

Means the senior management of the Company

"personal transaction"

Means any transaction in an instrument included under the Company's conflict of interest policy, personal dealing policy or any such other Company policy imposing restrictions over employee trading activity.

"investment research"

Means any form of investment advice, guidance or recommendation issued by the Company in the course of its normal activities.

"conflict of interest"

Means a situation whereby a client may suffer a loss or disadvantage through an action which results in a benefit or advantage to the Company or another client.

4. Operational process for managing conflicts of interest

We manage conflict of interest situations by way of an escalation policy. This involves the following stages:

- Identification
- Notification
- Assessment / escalation
- Resolution
- Reporting / record keeping

The stages of the escalation policy are as follows:

4.1 Identification

Identification and notification of actual or potential conflicts of interest is the responsibility of all employees. All employees receive training on the correct handling of conflicts of interest, and are aware of their responsibilities to identify situations which require reporting and handling under our conflict of interest policy.

In the event that an employee is unsure as to whether a situation represents a potential conflict of interest, our policy is that the employee is under instruction to raise the issue immediately with the Compliance department.

4.2 Notification

Upon identifying an actual or potential conflict of interest, the employee must immediately raise the issue with the Compliance department, who are responsible for assessing and monitoring all conflict of interest situations.

4.3 Assessment / escalation

The Compliance department is responsible for assessing all conflict of interest situations. This includes (but is not limited to) assessing:

- *Whether the situation represents an actual or potential conflict of interest*
- *How the conflict of interest can be appropriately managed (or not)*
- *The degree of materiality of the conflict of interest*
 - o *Consequently whether the conflict of interest requires immediate notification to senior management for further assessment*
- *Whether it is necessary to disclose the conflict of interest to the client(s) whose assets are at risk to permit the client(s) to decide a course of action or act via another route*

4.4 Resolution

The Company will take the necessary actions to resolve and / or manage conflict of interest situations. This may include (but is not limited to):

Managing the situation in such a way as to prevent the conflict of interest arising

Managing the situation in such a way as to ensure the interests of the Company or employee are not permitted to disadvantage or lead to a loss for the client(s)

Escalating the conflict of interest to the client(s) so that the client(s) may decide upon a satisfactory course of action

4.5 Reporting / record keeping

The Compliance Department maintains a register of all circumstances in which a conflict of interest has arisen. The register also contains the measures taken to mitigate the conflict of interest or to manage it. The register is updated any time a conflict of interest has arisen or may have arisen and is kept for a minimum of five years.

The register contains a description of the circumstances which constituted or may have constituted a conflict

of interest, names of the persons involved, the name of the person responsible for the mitigation of the conflict, a description of the steps taken in order to mitigate the conflict - including client disclosures and subsequent instructions.

5. Business activities which may give rise to a conflict of interest

The majority of the Company's business is the function of an execution-only broker and a third party investment research distributor.

Taking into consideration the services the Company offers, potential conflict of interest circumstances may include, but are not limited to:

- *Proprietary trading / client trade facilitation*
- *Personal account dealing*
- *3rd party business interests*
- *Use and distribution of investment research*
- *Inducements*
- *Offering of securities (primary issues)*
- *Competing client interests*
- *Inappropriate exchange of information*

For the sake of clarity, the following business activities are not undertaken by the Company, and conflicts of interest are therefore not able to arise:

- *Portfolio management*
- *Corporate Finance*
- *Underwriting*
- *Advising on mergers and acquisitions*

5.1 Proprietary Trading

The Company maintains procedures for avoiding and managing conflicts of interest when undertaking proprietary trading activities.

When placing orders the Company does not favour Company orders over client orders. In the event that a client order is received when the Company is trading, the Company order is suspended and the client order is carried out. The Company will not resume trading until all client orders are complete.

Traders will not trade on Company's behalf based on the information they have about clients' actual or likely orders where it is possible that their actions would lead to a disadvantage or loss to the client.

Traders must not trade with the clients using positions in securities which the Company holds on its proprietary book where it is possible that their actions would negatively affect clients' orders.

5.2 Personal account dealing

The Company maintains a personal dealing policy which all employees are required to observe. This policy places restrictions on employees to ensure that all personal dealing activity is appropriate and will not create an actual or potential disadvantage or loss to a client.

All personal dealing requires pre-approval. The pre-approval process requires an assessment as to whether a client is or may be trading in the instrument for which permission is being sought. In the event that a client is trading or may trade in the same instrument, the employee is not permitted to trade until the client no longer has an interest in trading.

MiFID permits persons who are involved in the production of investment research to undertake otherwise non-permitted transactions in exceptional personal circumstances of financial hardship. The Company expects all employees to manage their personal financial arrangements in such a way that this situation should never arise. In the event that such a situation were to arise, the Company would consider whether a personal transaction would be permitted purely on a case by case basis, and the final decision is that of the Company.

5.3 3rd party business interests

E*Trade employees are expected to devote the whole of their working time, attention and abilities to their duties for the Company. They may not, whether directly or indirectly, undertake any other business activities without the prior written approval of the Company.

Employees may not without the prior written consent of the Company accept any appointment which may conflict with the interests of the Company or which may in any way affect their abilities to carry out their duties for the Company. In the event that the 3rd party interest would represent a clear conflict of interest, permission to act for the 3rd party business would not be granted.

Prior written consent must be made to the Compliance department and requires authorisation by senior management. Employees must provide relevant information as required about the respective appointment or duties to be undertaken and no approval will be granted in the absence of all necessary information required to make a decision.

As part of the Company's employment terms and conditions, employees must disclose on demand to the Compliance Department any external business interests they have, including any directorships, business arrangements or any other relevant information.

The Compliance Department will maintain a register of all business interests disclosed and requested by the Company's employees. The register is reviewed regularly by the Compliance Department in order to ensure that there is no evidence of any undue influence or conflict due to employees' 3rd party business interests.

5.4 Use and distribution of investment research

The Company operates a system of segregating duties so that employees responsible for the production and dissemination of research do not have other duties that might give rise to a conflict of interest, e.g. sales or trading. The supervision of these employees is conducted by managers who have no other responsibilities that might give rise to a conflict of interest.

The Company endeavours to have a separate physical location for the employees responsible for the dissemination of research. Where physical separation is difficult to achieve, the minimum standards include keeping investment research in lockable cabinets or drawers and employees strictly adhering to information confidentiality and security principles.

The company maintains a register of all investment research produced and distributed. The register will contain the subject and the issuer of the investment research, the person or organisation to whom it was distributed, the name of the Company's employees who were responsible for the distribution, and the dates when the investment research was received by the Company and was distributed.

The timing of the distribution of investment research is administered by the investment research teams and no discussion takes place with any other part of the business.

The third party research disseminated to clients by the Firm is confidential. Employees must not disclose or make use of this investment research either for the benefit of the firm or for their own personal benefit.

5.5 Inducements

Employees, their families and any personally connected individuals are not allowed under any circumstances to offer or give, solicit or accept any inducement which causes, is likely to cause, or is perceived as likely to cause conflict with any duties owed by themselves or the Company to clients.

Cash gifts are not permitted and must be not offered or accepted.

The definition of a gift includes (but is not limited to) physical presents, club memberships, discounts, holidays, accommodation, and entertainment.

Entertainment may not be offered whereby the client is not accompanied by a Company employee. Entertainment may not be received whereby the employee is not accompanied by the donor.

Generally, other entertainment need not be reported as a gift but the entertainment policy requires employees to notify Compliance in advance of any entertainment which might give the impression of influencing the employee's judgement or behaviour in the continuation of their duties to the Company and its clients.

Invitations to attend certain events must be refused if they could be construed to be unusual, to appear to create a sense of obligation to the host or bias in their favour. This must be assessed in the context of the nature of the invitation, including cost or rarity value or any other relevant factor.

Entertainment given or received in the normal course of business e.g. lunches, does not require notification to the Compliance Department. However, employees must exercise their judgement in order not to give grounds for suggestions of undue influence, e.g. where the business lunches become frequent.

All gifts to be given or received, in the course of the Company's business, with a value of £25 or more must be entered onto the gifts register held by the Compliance Department. Where a series of gifts, from the same individual or different individuals representing the same organisation and in succession such that the gifts represent a single inducement, represents a value of £100 or greater, no further gifts are allowed. The register is reviewed regularly by the Compliance Department in order to ensure that there is no evidence of any undue influence being created by any gifts or series of gifts.

Employees should not, as a general rule, accept or offer gifts estimated to have a value of more than £100. Where a gift arrives unexpectedly and its value is estimated at more than £100, but it would be impractical or offensive to return it, employees should declare it in writing to the Head of Compliance and surrender it to one of the compliance officers, who will make suitable arrangements for its use within the Company or for charitable purposes or disposal.

Regardless of value, employees must ensure that no gift or series of gifts can be accepted which may appear to create a conflict of interest.

The gifts policy also applies to all suppliers and service providers as well as potential suppliers and service providers.

In considering whether a gift or form of entertainment is excessive or inappropriate, the Compliance Department will consider the nature of the business relationship and whether it could be regarded as an improper inducement by the employer of the recipient or donor or by any other relevant party.

When in doubt whether a gift or entertainment is appropriate, all employees are required to consult the Compliance Department.

5.6 Offering of securities (primary issues)

The Company operates in the offering of securities. This activity is isolated from day to day business activities and information is not shared with any other business functions. All information is subject to the Company's insider dealing policy and these records are maintained by Compliance.

5.7 Competing client interests

The Company manages client in orders in such a way as to ensure that one client will not be treated in such a way so as to create a disadvantage or loss to another client. This includes policies and procedures which include (but is not limited to) the following business activities:

Treatment of client orders fairly and in due turn
The maintenance of confidential information
Fair allocation of trade executions when multiple clients are trading
Equal disclosure of relevant information to clients
Traders do not favour one client over another when placing orders. Where a client order and another client's order are placed at the same time, traders ensure that all orders are placed fairly and in due turn and without preference given to any one client over another client.

Employees may not disclose to a client or any other 3rd party not directly involved in the Company's business activities another client's orders or any other confidential information which they acquire in the course of their duties. Procedures and security measures are in place to ensure that confidential information regarding client orders is not inadvertently disclosed to third parties.

5.8 Inappropriate exchange of information

The Company has procedures in place to manage situations where the exchange of information must be controlled in order to prevent or manage conflicts of interest. All employees are required to observe the Company's insider dealing policy.

Our insider dealing policy requires employees to notify Compliance of all situations whereby an employee becomes aware of inside information. Employees are also required to notify Compliance of any situation where

information received might constitute inside information. Compliance will record the circumstances of the situation and take such action as is necessary and appropriate. This may include (but is not limited to):

Requiring the employee not to disclose the inside information to any other party

Requiring the employee to desist from any activities whereby the knowledge of the inside information will or might create a conflict of interest

6. Senior management control

The Head of the Compliance Department is responsible for the identification and management of conflicts of interest on a daily basis according to the escalation policy as described above.

Where there is an identified significant conflict of interest, the senior management will be informed immediately.

The Compliance Department provide senior management with regular reports of all conflict of interest situations that have arisen. This includes details of the situation, the assessment and escalation activities undertaken and measures taken to mitigate them.

Periodically (no less than annually) senior management will analyse the cases of conflicts of interest that have arisen as well as potential conflicts of interests and review the systems and controls put in place for the prevention and mitigation of the conflicts of interests in order to ensure that these remain effective and relevant.



E*TRADE