



Overview of conflicts of interest policy

MAY 2014

OBJECTIVE AND REGULATORY FRAMEWORK

The purpose of this document is to present the management procedure for conflicts of interest, which is implemented within **Lyxor**¹ to prevent clients' interests being harmed through a conflict of interest.

In accordance with article L.533-10 (paragraph 3) of the French Monetary and Financial Code, with articles 313-8 to 313-22 of the General Regulations of the AMF [Autorité des Marchés Financiers - Financial Markets Authority] and with the requirements of Directive 2004/39/EC "MiFID Directive" relating to the obligation for investment services providers to set out in writing and maintain operational an effective conflicts of interest management policy, Lyxor has established a policy for the identification, prevention and management of conflicts of interest, which has been adapted according to the nature of its business, its size and its organisation.

The Lyxor policy is thus based on:

- the identification of the situations that give rise to or are likely to give rise to a conflict of interest that may be detrimental to the interests of one or more clients;
- the implementation of procedures and measures in order to prevent and manage conflicts of interest;
- the keeping and updating of a register recording the services and activities for which a conflict of interest has arisen or is likely to arise.

However, the purpose of this document is not to create additional rights for or obligations to third parties, which did not previously exist before this document was put at their disposal, and does not give rise to any contractual obligations between Lyxor and its clients.

1. DETECTION OF CONFLICTS OF INTEREST

1.1. Definition of the concept of a conflict of interest

In general terms, a conflict of interest is defined as a situation in which the investment services provider carries out, on its own behalf or on behalf of clients, activities that have seemingly conflicting objectives and whose completion, if the activities are not organised and controlled accordingly, may harm the interests of a client or a category of clients.

The three categories of potential conflicts are:

- conflicts between multiple clients: for example the management company provides services to two clients, favouring one of the two clients by giving priority treatment to its operations;

¹Lyxor refers to Lyxor Asset Management S.A.S (LAM) as well as to Lyxor International Asset Management S.A.S. (LIAM)

- conflicts between the management company or a third party and clients: for example the management company offers a more lucrative service to the detriment of the client's interests;
- conflicts between employees of the management company and clients: for example employees use confidential information relating to the clients or the portfolios that are managed in order to carry out operations for their own purposes.

Thus, within Lyxor, a conflict of interest is defined as a situation in which:

- ▶ the interests of Lyxor, or of its employees, compete with the interests of a fund managed by Lyxor, and therefore the interests of the holders of the fund concerned; or
- ▶ the interests of a fund, or of a client of a fund, compete with the interests of another fund or of another client of the same fund.

The procedure implemented within Lyxor is based primarily on the reminder that the interests of the client take priority over those of Lyxor. Previously, Lyxor proceeded to identify the potential situations in which conflicts of interest may arise.

1.2. Identification of potential conflicts of interest

The situations that may give rise to such conflicts are, non-exhaustively and according to the provisions of the AMF General Regulations, as follows:

- the management company or the employee is likely to make a financial profit or avoid a financial loss at the expense of the client;
- the interests of the management company or the employee in the outcome of a service provided to the client, or a transaction carried out on behalf of the client, is different from the interests that the client has in the same result;
- the management company or the employee is prompted by financial reasons or other reasons to prioritise the interests of another client (or a group of clients) over the interests of the client to which the service is provided;
- the management company undertakes the same activity as that of the client;
- the management company or the employee receives, from someone other than the client, a benefit relating to the service provided to the client in any form whatsoever, aside from the commission or fee that is usually charged for this service;
- the interests of the management company's clients compete with those of the group to which the management company belongs.

The above list is not exhaustive and is not intended to cover all situations in which conflicts of interest may arise. Lyxor has mapped out the different situations in which there may be a conflict of interest within the context of its activities, and which may harm the interests of clients. This mapping is regularly updated by Lyxor's compliance officer.

Once identified, the conflict of interest must be subject to a procedure that ensures that the interests of the client remain central to concerns and that any situation that might harm the client's interests is resolved.

These hypothetical situations must be considered and are approached by Lyxor with the utmost vigilance and in accordance with the provisions of the AMF General Regulations. Lyxor places particular emphasis on ensuring that the interests of its clients are protected at all times and in the best possible way.

2. PREVENTION OF CONFLICTS OF INTEREST

Lyxor has set out an organisation structure and procedures that are designed to prevent conflicts of interest, to identify them and to deal with them as soon as possible.

The purpose of these procedures is to regulate the activities and services that give rise to or are likely to give rise to a conflict of interest. They are thus designed to ensure that the people engaged in the various activities that involve a conflict of interest will have an appropriate degree of independence in carrying out these activities.

The prevention and management of the risk of conflicts of interest are largely based on:

- **the respect of ethical principles by employees:** each employee must comply with the code of ethics that highlights the priority that is given to the interests of fund holders, the observance of professional secrecy, market integrity and compliance with laws and regulations,
- **the establishment of procedures implementing the fundamental principles of third-party asset management,** particularly in terms of managerial independence and the precedence of the client's interests, in the management of mandates and UCITS,
- **an organisation of business that ensures the physical separation of activities** that, in the absence of such separation, would be likely to give rise to conflicts of interest;
- **staff training courses** that ensure a satisfactory knowledge of employees' responsibilities and obligations;
- **monitoring of a strict policy on gifts and donations.**

If, despite the prevention procedures, an employee is in a situation in which there is a conflict of interest, the employee must immediately inform their direct line manager, as well as the compliance officer, in accordance with the internal conflict of interest management procedure described in the paragraph below.

2.1. Circulation and protection of information: the organisation of Chinese walls within Lyxor

2.1.1. Description

In accordance with regulations, Lyxor adopts and maintains organisational provisions to take all reasonable measures to reduce conflicts of interest.

The structural and functional separation of its activities, a concept known as "Chinese walls", restricts

the circulation of information between Lyxor's various departments and facilitates the prevention of incidences of conflicts of interests, controlling the confidentiality of information and protecting the interests of its clients.

It is in this way that the principles of the separation of business, management, support and control functions are met. Employees of Lyxor can neither receive nor attempt to obtain confidential or privileged information from other Lyxor departments that are covered by these Chinese walls. These measures enable Lyxor employees to act in the best interests of clients and to work in an environment in which the circulation of information is strictly controlled.

2.1.2. The Chinese walls principles within Lyxor

In practice, numerous measures have been implemented within Lyxor in order to restrict the circulation of confidential or privileged information. These measures enable the various departments of Lyxor to carry out their activities objectively and independently in order to act in the exclusive interests of clients at all times.

Several factors determine the establishment of Chinese walls within Lyxor.

Lyxor takes into account:

1. the fact that it belongs to the Société Générale group;
2. the probability that certain Lyxor departments or employees will have access to privileged or confidential information, and the need to separate the different aspects of its business.

2.1.3. The procedure for crossing the Chinese walls

In certain exceptional circumstances, contact between the various aspects of the business that are covered by Chinese walls may be required. The crossing of these walls is regulated by a formal procedure and can only be completed with the prior agreement of the compliance officer.

2.2. Procedures for the prevention of conflicts of interest

2.2.1. Transfer between funds

Given that transfers between funds present a high risk of conflicts of interest, Lyxor has implemented a procedure that strictly regulates transactions of this kind in order to ensure that they are carried out in the exclusive interests of the fund holders.

2.2.2. Gifts and donations

Lyxor has established a gifts and donations policy with which its employees must comply.

Lyxor permits gifts and donations that are given to/by the client on the condition that they:

- are reasonable,
- comply with commercial practices and standards and with local regulations,
- uphold the dignity and reputation of the Group and its employees.

2.2.3. Personnel transactions

The regulations introduced a framework of professional ethics and checks on personal transactions. In accordance with these regulations, Lyxor employees must respect the rules and reporting formalities outlined in the Lyxor code of ethics, which regulates personal transactions by Lyxor employees.

2.2.4. Best execution policy

In accordance with the requirements of the "MiFiD Directive", Lyxor continuously checks that elected parties fulfil the best selection criteria. This choice thus ensures that the best possible result for clients is obtained.

2.2.5. Employees' compliance with ethical principles

Each employee must comply with the code of ethics, which highlights the priority that is given to the interests of fund holders and the respect of market integrity. Training courses are organised to make sure that staff are aware of the issues surrounding conflicts of interest.

Both an annual reminder of the principles applicable to conflicts of interest and the conflict of interest management policy are also sent to all employees.

3. MANAGEMENT OF CONFLICTS OF INTEREST

The management of conflicts of interest consists of outlining the measures to be taken to manage conflicts of interest. These measures must also indicate the operating procedure that is to be followed in order to deal with conflicts of interest.

Furthermore, when these measures are not sufficient to guarantee, with reasonable certainty, the avoidance of the risk of harm to the interests of the clients, Lyxor informs the client of the general nature or source of the conflict of interest before acting on its behalf (3.2).

3.1. Measures to be carried out in the event of a conflict of interest

Lyxor employees must strive to avoid conflicts of interest. However, if a situation likely to cause a potential conflict of interest should arise, the employee must immediately alert their direct line manager as well as the Lyxor compliance officer.

Should the conflict of interest be proven, the compliance officer then gives their opinion on how it should be solved and informs the Management.

When faced with a conflict of interest, Lyxor may:

- complete the operation that gave rise to the conflict of interest, whilst taking the necessary provisions for handling the conflict without harming the interests of the client concerned,
- not complete the operation that gave rise to the conflict of interest or even,
- convey all the necessary information regarding the nature of the conflict of interest to the client concerned, in order that they may make a fully informed decision.

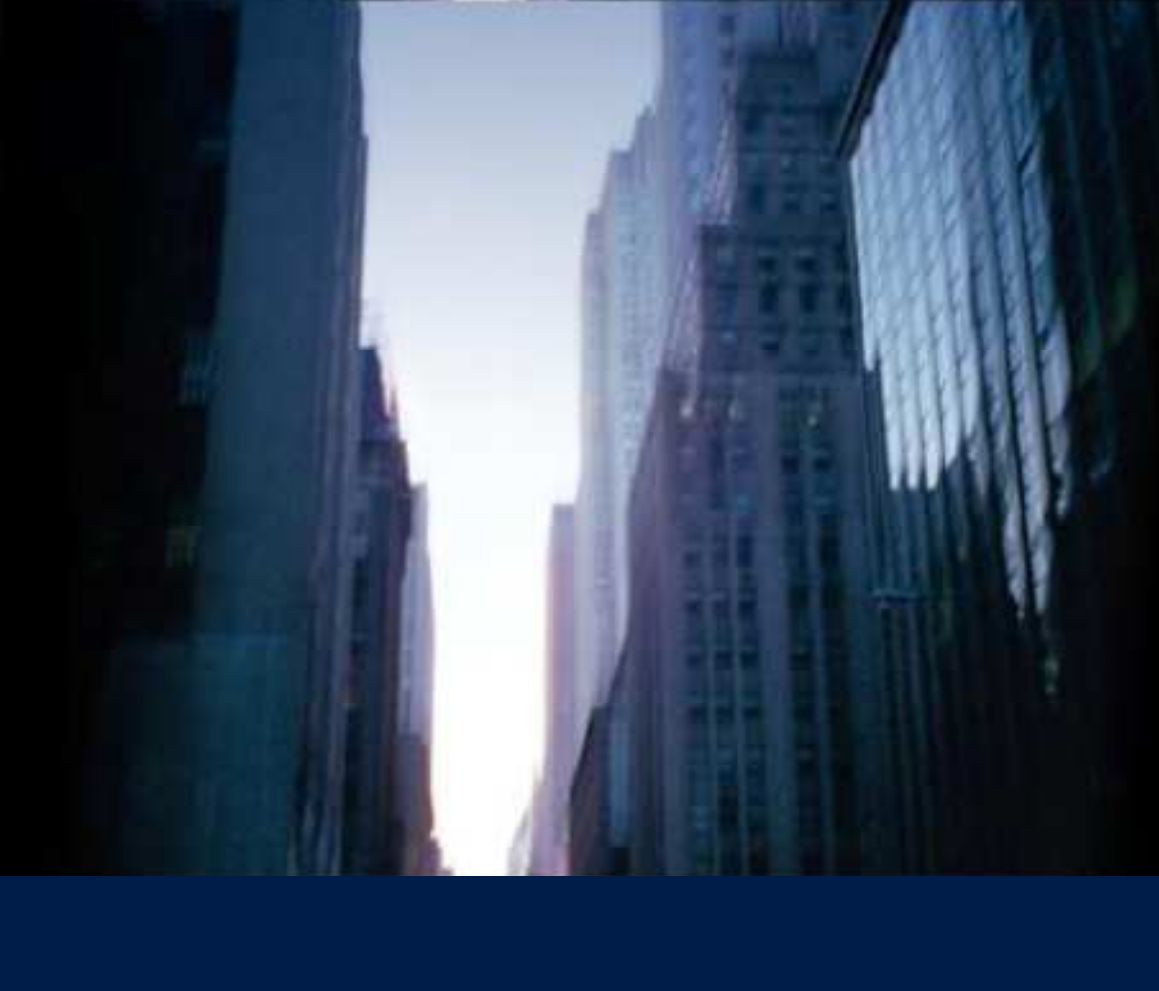
These measures are based on the procedures that apply to all Lyxor employees.

3.2. Client information

When the measures taken by Lyxor are not sufficient to guarantee the avoidance of the risk of harm to the interests of the clients, Lyxor shall inform the clients before acting on their behalf.

4. KEEPING A REGISTER OF CONFLICTS OF INTEREST

Lyxor keeps and regularly updates a register that documents conflicts of interest that have been proven or that are likely to occur, as well as the various measures taken by Lyxor to prevent or manage these conflicts of interest.



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