Fund Manager Code of Conduct

Third Edition
pursuant to the Securities and Futures Ordinance (Cap. 571)

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Introduction

Persons to whom this Code applies

This Code sets out conduct requirements for persons licensed by or registered with the Securities and Futures Commission (SFC) whose business involves the management of collective investment schemes (whether authorized or unauthorized) and/or discretionary accounts (in the form of an investment mandate or pre-defined model portfolio) (Fund Managers). The particular Code requirements that are not applicable to and additional requirements that are applicable to licensed or registered persons conducting discretionary accounts management are set out in Appendix 1.

This Code applies to all licensed or registered persons acting as Fund Managers, including, as appropriate, their representatives. Certain requirements (as specifically set out in this Code), however, are only applicable to a Fund Manager that is responsible for the overall operation of a fund.

For the avoidance of doubt, all licensed or registered persons should also comply with the requirements set out in other applicable codes and guidelines in force from time to time, including the Code of Conduct for Persons Licensed by or Registered with the SFC (Code of Conduct) and the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC (Internal Control Guidelines). In particular, a Fund Manager managing SFC-authorized collective investment schemes is required to comply with the relevant requirements under the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products in force from time to time.

Interpretation

except where the context otherwise requires, includes

Purpose of this Code

This Code aims, firstly, to supplement codes and guidelines applicable to all categories of licensed or registered person, including, for the avoidance of doubt, the Code of Conduct (including the General Principles set out therein), with guidance in respect of the minimum standards of conduct specifically applicable to Fund Managers. It does not replace any legislative provisions, codes or guidelines issued by the SFC. Secondly, it highlights certain existing requirements applicable to Fund Managers. Further reference should however be made to the legislation, other applicable codes and guidelines, and, in the case of any inconsistency, the more stringent provision will be applied. This Code does not have the force of law and should not be interpreted in a way that would override the provisions of any law.

Effect of breach of this Code

Breach of any of the requirements of this Code will, in the absence of extenuating circumstances, reflect adversely on the fitness and properness of a Fund Manager and may result in disciplinary action. **When considering a person's failure to comply with this Code, SFC staff will adopt a pragmatic approach taking into account all relevant circumstances, including the size of the Fund Manager, and any compensatory**

I. Organisation and Structure

1. Organisation and Management Structure

Incorporation and Registration

Segregation of Duties

1.4 A Fund Manager should ensure that key duties and functions are appropriately segregated, unless this is not reasonably practicable given the size of, or the nature of investment made by, the Fund Manager. In particular:

(a) front office functions (which include making investment decisions, marketing and dealing in , and placing orders to deal with brokers) should be physically segregated from back office functions (which include receiving broker confirmations, settling trades, accounting and reconciliation, valuation and reporting to funds and their investors) and should be carried out by different staff with separate reporting lines;

(b) compliance and audit functions should, if possible, be separated from each other, and have separate reporting lines from other functions; and

(c) the investment decision making process should be clearly delineated from the dealing process.

Note: A central dealing function is encouraged but is not mandatory.

Conflicts of interest

1.5 A Fund Manager should maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps designed to identify, prevent, manage and monitor any actual or potential conflicts of interest, including
interests of the fund on normal commercial terms. Where an actual or potential conflict arises, the conflict should be managed and minimised by appropriate safeguards and measures to ensure fair treatment of fund investors, and any material interest or conflict should properly be disclosed to fund investors.

Responsibilities of Management

of Directors, Chief Executive Officer or other senior operating management

1.6 The senior management of a Fund Manager should:

(a) be principally responsible for compliance by the Fund Manager with all relevant legal and regulatory requirements, as well as the nurturing of a good compliance culture within the Fund Manager;

(b) maintain clear reporting lines with supervisory and reporting responsibilities assigned to qualified and experienced persons;

(c) ensure that all persons performing functions on behalf of the Fund Manager are provided adequate and up-to-
policies and procedures applicable to them; and

(d) ensure that the performance of the Fund Manager in managing funds (whether authorized or unauthorized) is reviewed at least annually.

Risk Management

1.7.1 The Fund Manager should establish and maintain effective policies and procedures as well as a designated risk management function to identify and quantify the risks, whether financial or otherwise, to which the Fund Manager and, if applicable, the funds are exposed. The Fund Manager should take appropriate and timely action to contain and otherwise adequately manage such risks.

1.7.2 The Fund Manager should refer to and comply with the relevant provisions under the Internal Control Guidelines.

1.7.3 A Fund Manager should review the risk management policies and procedures with appropriate frequency and enhance such policies and procedures whenever necessary.

Compliance

(a) maintain an effective compliance function, including a compliance officer, within the Fund Manager to ensure that the Fund Manager complies with its own internal policies and procedures, and with all applicable legal and regulatory requirements, including this Code; and

(b) ensure that the compliance function possesses the technical competence and experience necessary for the performance of its functions.

1.8.2 The compliance function and the compliance officer should be independent of other

is not reasonably practicable given the size of the Fund Manager. Where there is no separation of functions, the Fu
role of compliance officer. Compliance activities may be delegated to an appropriately qualified professional, the responsibility and obligations may not be delegated.

1.8.3 There should be sufficiently detailed compliance procedures to enable senior management to comply with all applicable requirements at all times.

Audit

1.9 Where practicable, a Fund Manager should maintain an independent and objective audit function to report on the

(b) follow clearly defined terms of reference (including monitoring the timeliness and accuracy of other functions) which set out the scope, objectives, approach and reporting requirements;

(c) adequately plan, control and record all audit work performed, and record the findings, conclusions and recommendations; and

(d) report to senior management on all matters highlighted in the audit report, which should be resolved satisfactorily and in a timely manner.

Where the size of the Fund Manager does not justify a separate internal audit function, the relevant roles and responsibilities should be performed or reviewed by external auditors.

Delegation

1.10 A Fund Manager should exercise due skill, care and diligence in the selection and appointment of third-party delegates. Where functions are delegated to third parties, there should be ongoing monitoring of the competence of delegates, to ensure that the principles of this Code are followed. Although the investment management role of the Fund Manager may be sub-contracted, the responsibilities and obligations of the Fund Manager to the funds it manages may not be delegated.

Withdrawal from Business

1.11 A Fund Manager who withdraws from business should ensure that any affected clients are promptly notified and that proper arrangements remain in place for the safekeeping of client assets. Where a Fund Manager is being wound up, it should comply with all the applicable statutory requirements.

2. Staff Ethics

Personal Account Dealing

Note: The following guidelines are intended to address the basic principles that persons engaged in fund management business, when transacting for themselves, must give the funds managed by the Fund Manager priority and avoid conflicts of

or directors of a Fund Manager or persons accredited to a Fund Manager for conducting regulated activities:

who in their regular functions or duties make or participate in investment decisions, or obtain information, prior to buying or selling investments on behalf of a fund; *and/or*

whose functions relate to the making of any recommendations with respect to such buying or selling;

or any persons over whom they exercise control and influence.

As a minimum, these guidelines cover trading in securities and derivatives. Beyond this, however, the scope of investments that should be covered is not defined, as this may vary depending on the business of the Fund Manager and the underlying investments of the funds managed by the Fund Manager. A Fund Manager is expected to define the types of investment intended to be covered, and to respect the principles outlined here.

2.1.1 A Fund Manager should ensure that it has internal rules or provisions in its contracts of employment or other agreements with the relevant persons as follows:

(a) that relevant persons are required to disclose existing holdings upon joining a Fund Manager and at least semi-annually thereafter;

(b) that relevant persons are required to obtain prior written permission for personal account dealing from the compliance officer or other person designated by senior management. The permission should be valid for no more than five trading days, and be subject to the following constraints:

(i) that relevant persons may not buy or sell an investment on a day in

persons designated by senior management is given for an earlier disposal; and

(d) that relevant persons are required, either:

(i)

risk profile, as set out in the respective constitutive and/or relevant documents of the funds managed by the Fund Manager. In this connection, a Fund Manager should have in place effective and properly-implemented procedures and controls.

Best Execution

3.2 A Fund Manager should ensure that fund orders are executed on the best available terms, taking into account the relevant market at the time for transactions of the kind and size concerned.

Prohibition on Insider Dealing

3.3 A Fund Manager should establish and maintain policies and procedures to prohibit and prevent market misconduct, including, but not limited to, insider dealing and market manipulation. In particular, it should not effect or cause to be effected any transaction based on confidential price sensitive information or when otherwise prohibited from dealing by statutory restrictions on insider dealing, and should have procedures in place to ensure that staff are aware of such restrictions.

Order Allocation

3.4 A Fund Manager should:

(a) ensure that all client orders are allocated fairly;

(b) make a record of the intended basis of allocation before a transaction is effected; and

(c) ensure that an executed transaction is allocated promptly in accordance with the stated intention, except where the revised allocation does not disadvantage a client and the reasons for the re-allocation are clearly documented.

Fund Portfolio Turnover

3.5 A Fund Manager should take into acc
excessively on behalf of a fund.

Underwriting

3.6 Unless specifically permitted in the fund mandate, a Fund Manager should not

(a) the allocation of stock received in the offering provides for a fair and equitable allocation amongst clients;

(b) preferential allocations are prohibited; and

Transactions with Connected Persons

3.8.1 A Fund Manager should not carry out any transaction on behalf of a fund with a party

terms, consistent with best execution standards, and at a commission rate no higher than customary institutional rates.

3.8.2 A Fund Manager should not, on behalf of a fund, deposit funds with or borrow funds from a connected person unless:

(a)

Note:

Where appropriate, measures to manage risks of a fund may include:

(a) identifying and potential risks of a fund throughout the fund life cycle;

(b) ensuring that the risk profile of the fund is consistent with the nature, size, portfolio structure and investment strategies, restrictions and objectives of the fund as provided and represented to fund investors in the constitutive and/or relevant documents; and

(c)

Note: As part of its collateral valuation and management policy, a Fund Manager is generally expected to accept collateral types that it is able, following a counterparty failure, to:

(a) hold for a period without breaching applicable laws or regulations or the relevant mandate;

(b) value; and

(c) risk manage appropriately.

The collateral valuation and management policy should include contingency plans to cover how collateral should be managed following default situations (in particular, the default of the largest market counterparty to securities lending, repo and reverse repo transactions of a fund) and the capabilities to liquidate collateral in an orderly way.

3.13.3 A Fund Manager should have in place an eligible collateral and haircut policy in determining the types of acceptable collateral and their corresponding haircut in connection with securities lending, repo and reverse repo transactions.

3.13.4 A Fund Manager should ensure there is in place a properly designed methodology to calculate haircuts on the collateral received in connection with securities lending, lending, ho4a-tie94

assessment of the ability to liquidate part of the entire reinvestment portfolio under a range of stressed market scenarios.

3.13.7 A Fund Manager that is responsible for the overall operation of a fund should provide

investors at least on an annual basis.

Note: At a minimum, it is expected that the following information should be provided to fund investors from time to time:

(a) Global data:
- *(i) the amount of securities on loan as a proportion of total lendable assets and*
- *(ii) the absolute amount of assets engaged in securities lending, absolute amounts of the repo book and the reverse repo book.*

(b) Concentration data:
- *(i) top 10 collateral securities received by issuer;*
- *(ii) top 10 counterparties of securities lending and repo transactions; and*
- *(iii) top 10 counterparties of reverse repo transactions.*

(c) Aggregate securities lending, repo and reverse repo transaction data:
- *(i) by type of collateral received;*
- *(ii) by currency;*
- *(iii) by maturity tenor;*
- *(iv) by geography (counterparty);*
- *(v) cash versus non-cash collateral;*
- *(vi) maturity of collateral; and*
- *(vii) settlement and clearing (tri-party, central counterparty, bilateral).*

(d) Re-use and re-hypothecation data:
- *(i) share of collateral received that is re-used or re-hypothecated, compared to the maximum authorised amount if any; and*
- *(ii) information on any restrictions on type of collateral received.*

(e) Return data, including the split between the return from securities lending, repos and reverse repos and the return from cash collateral reinvestment.

(f) Number of custodians and the amount of collateral assets received / held by each of the custodians.

(g) The proportion of collateral posted by funds which are held in segregated accounts, pooled accounts, or in any other accounts.

3.13.8 Where the Fund Manager is responsible for the overall operation of a fund, it should disclose a summary of the securities lending, repo and reverse repo transactions policy and the risk management policy to fund investors.

4.4.2 Where the Fund Manager retains custody of fund assets, the Fund Manager should also specifically disclose the existence of such an arrangement and the additional safeguards that have been put in place to mitigate any potential conflicts of interest.

5. Operations

Record Keeping

5.1 A Fund Manager should keep its accounts and records properly and in line with all applicable statutory requirements. Proper record keeping includes:

(a) maintaining an audit trail of all transactions effected by the Fund Manager, all information relating to client accounts produced by third parties and all relevant internal reports, by keeping all transaction records such as contract notes from third-party brokers, client registers, accounting/securities ledgers, registers of securities, and records of investment processes adopted;

(b) maintaining appropriate procedures for the safekeeping, retrieval and storage of documents and records; and

(c) complying with provisions of the Securities and Futures (Keeping of Records) Rules.

Auditors and Audited Accounts

5.2.1 A Fund Manager should appoint an independent auditor to perform an audit of the financial statements of the Fund Manager. The audited accounts of the Fund Manager should be filed in accordance with the applicable statutory requirements and be made available to the fund upon request.

5.2.2 Where a Fund Manager is responsible for the overall operation of a fund, the Fund Manager should ensure that an independent auditor is appointed to perform an audit of the financial statements of the fund (whether by appointing the independent auditor or procuring the relevant fund to appoint the independent auditor) in order to make available, at a minimum, an annual report for each of the funds it manages. The annual report for each of the funds should also be made available to fund investors of the relevant funds upon request.

5.2.3 The accounting information given in the annual report for each of the funds should be prepared in accordance with generally accepted accounting principles and with the accounting rules set out in the constitutive documents of the fund.

Fund Portfolio Valuation

Paragraphs 5.3.1 to 5.3.7 (inclusive) of this sub-section are only applicable to a Fund Manager that is responsible for the overall operation of a fund or has been delegated responsibility for fund valuation.

5.3.1 A Fund Manager should ensure that, in respect of the fund it manages, appropriate policies and procedures are established so that a proper and independent valuation

from other fund assets), a Fund Manager that is responsible for the overall operation of a fund should disclose to the fund investors:

(a) the limit to total assets to be put in the side pocket;

(b) the overall fee structure and charging mechanism (in respect of, among

5.1 A Fund Manager should ensure that the net asset value calculation of different unit/share classes is carried out in accordance with the terms set out in the constitutive documents of the fund and the valuation policies and procedures established by the Fund Manager.

5.5.2 A Fund Manager should ensure the valuation policies and procedures in respect of each fund it manages should seek to detect, prevent and correct pricing errors and to compensate fund investors in respect of any material error. Action should also be taken to avoid further error.

Reconciliations

5.6 A Fund Manager should arrange to carry out recon
internal records against those issued by third parties, e.g. clearing houses, banks, custodians, counterparties and executing brokers, to identify and rectify any errors, omissions or misplacement of assets. Reconciliations should be performed regularly (and, in any event, at least monthly) having regard to the nature of the fund assets.

Disclosure of Interests

5.7 A Fund Manager should disclose all interests in securities as required by all applicable statutory requirements and have procedures in place to ensure that staff are aware of such requirements.

III. Dealing with the Fund and Fund Investors

6. Dealing with the Fund and Fund Investors

Provision of Information

6.1 A Fund Manager should:

(a) provide the fund (and, where the Fund Manager is responsible for the overall operation of a fund, fund investors) with adequate information about the Fund Manager, including its business address, relevant conditions or restrictions under which its business is conducted, and the identity and status of persons acting on its behalf with whom the fund (or, where the Fund Manager is responsible for the overall operation of a fund, fund investors) may have contact; and

(b) disclose the financial condition of its business to a fund upon request.

6.2 Where a Fund Manager is responsible for the overall operation of a fund, it should make adequate disclosure of information (as well as any material changes to the information) on the fund which is necessary for fund investors to be able to make an informed judgment about their investment into the fund.

Confidentiality

6.3 A Fund Manager should maintain proper procedures to ensure confidentiality of information kept by it in respect of the fund or fund investors

Complaints

6.4 A Fund Manager should maintain:

(a) procedures to ensure that:

(i) complaints from a fund or fund investors relating to the management of any fund managed by it are handled in a timely and appropriate manner;

(ii) steps are taken to investigate and respond promptly to a complaint by a person designated by senior management other than an individual directly concerned with the subject of the complaint or by the compliance officer; and

(iii) if a complaint is not remedied promptly, the fund or fund investor is advised of any further steps which may be available to the fund or fund investor under the regulatory system; and

(b) a register of complaints to give effect to (a) above. This should be reviewed by senior management on a regular basis.

7. Marketing Activities

Representations by the Fund Manager or its Representatives

7.1 A Fund Manager should ensure that any representation– made or information supplied by it to a fund or any fund investor is accurate or not misleading.

Issue of Marketing Materials

7.2 A Fund Manager should ensure that all advertisements and marketing materials are authorized as required by the SFC before issue and, in any event, ensure that the marketing materials:

(a) are not false, biased, misleading or deceptive;

(b) are clear, fair and

(c) document; and

(d) only contain performance claims that can be verified.

Offers of Investments

7.3 A Fund Manager should comply with all applicable statutory requirements regarding the offer of investments.

8. Fees and Expenses

Disclosure of Charges

8.1 A Fund Manager should disclose to a fund (and where the Fund Manager is responsible for the overall operation of a fund, fund investors) the basis and amount of its fees and charges.

Fair and Reasonable Charges

8.2 All charges, fees and mark-ups affecting a fund and fund investors should be fair and reasona

(d) appropriate transitioning arrangements that account for the possible winding

business to others in the event the Fund Manager is unable to continue providing its services.

Note:

Business disruptions, whether temporary or permanent, include, without limitation, natural disasters, cyber-attacks, technology failures, key personnel departures and other similar events.

3. The business continuity and transition plan, including the adequacy of the plan and the effectiveness of its implementation, should be reviewed at least annually. Records of such reviews should be maintained.