

# **Conflicts of Interest policy for Cave & Sons Ltd**

**(Including details regarding our independence)**

**Cave&Sons** 

## Overview

Under the FCA's Principle for Business, Principle 8 (Conflicts of interest) we are required to pay due regard to the interests of each client and to prevent or manage any conflicts of interest fairly, both between our firm and our clients and between a client and another client. The specific rules for dealing with conflicts of interest can be found under the Senior Management Systems and Controls (SYSC) rules which can be found at SYSC 10.

We will take all appropriate steps to identify and prevent or manage conflicts of interest, by:

- a) Identifying and preventing any potential circumstances which may give rise to conflicts of interest, and which pose a risk of damage to clients' interests
- b) Establishing and maintaining appropriate mechanisms and systems to manage those conflicts and
- c) Maintaining systems at all times in an effort to prevent actual damage to clients' interests through the identified conflicts

The directors fully support this and are committed to ensure that all conflicts between our firm and our clients, and between clients, are managed fairly with no party disadvantaged.

We take our responsibilities to our clients very seriously and always treat our clients in a transparent and fair way. We will always consider if our action adversely impacts them. In addition to complying with the FCA requirements we recognise that handling conflicts fairly is a fundamental element of good business practice and is required to assist in maintaining and developing our firm's business.

## Identifying a conflict of interest

We must consider all reasonable steps to identify conflicts of interest which may arise when we provide investment services to our clients.

When identifying the types of conflict that arise, or may arise, we will assess whether our firm, anyone connected with our firm or (if relevant) another 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 and has the potential to influence the outcome to the detriment of the client.

As a minimum, we will consider whether our firm, anyone connected with our firm or another client:

- a) Is likely to make a financial gain, or avoid a financial loss, at the expense of a client
- b) Has a financial, or other, incentive to favour the interest of another client or group of clients over the interests of a client
- c) Carries on the same business as a client
- d) Receives or will receive from a person other than a client an inducement in relation to a service provided to the client, in the form of monies, goods or services, other than the standard commission or fee for that service, or
- e) Is substantially involved in the management or development of policies in particular where they have influence pricing or distribution costs

Conflicts of interest may therefore include but are not restricted to interests between:

- Our firm and our clients
- Our staff and our clients
- Two or more different clients
- Third parties and our clients

- New services / products and our clients
- Strategic changes and our clients

We have sought to identify and prevent conflicts of interest that exist in our business and have put in place measures we consider appropriate to the relevant conflict in an effort to prevent, monitor, manage and control the potential impact of those conflicts on our clients. The conflicts identified are:

### **Regulated activities carried out by Cave & Sons that may give rise to conflicts of interest**

- 1 - Execution of orders on behalf of clients
- 2 - Portfolio Management
- 3 - Independent Financial Advice

### **Managing conflicts**

- **Policies and Procedures** - We ensure that all employees at Cave's receive detailed guidance via our internal policies and procedures to ensure that conflicts and potential conflicts are mitigated or avoided. Cave's Board and the Compliance Department within Cave's are responsible for ensuring that our systems and controls and procedures continue to be robust and adequate and when a conflict does arise it is managed promptly and fairly.
- **Supervisory Arrangements** - Two departments or businesses which, if run together, could encounter conflicts of interest have a clear division of responsibilities and are monitored closely.
- **Training** - Advising and Investment facing employees and other associated individuals are provided with regular training on how to identify and manage a conflict of interest
- **Inducements** - An Inducements, gifts and hospitality policy that sets out Cave's arrangements. In general, Cave's must not pay to, or accept from, a third party any fee, commission, or other benefit in relation to business undertaken for a client
- **Advice and Provision of Portfolio Management Services** - Suitability of advice, portfolio construction and any changes made are monitored independently by the Compliance Department to ensure all clients are treated fairly and receive the appropriate level of service.

## Cave's: Potential conflicts of interest

### a) Business model - offering a product or service that Cave & Sons has a commercial interest in

Recommended investment into Cave's Discretionary Investment Management service or Cave's Model Portfolio Service (MPS) - both are part of the same group as Cave & Sons, and therefore benefit from a share of management fees. We mitigate this by continually surveying the marketplace and will only recommend these services if they warrant inclusion in a client portfolio and the target market of these match our client's interest.

Before we recommend that clients use Cave's Discretionary Investment Management service or Cave's Model Portfolio Service (MPS), we will consider other reasonable options for the client. If we do recommend these services, our compliance department provides independent oversight of the suitability of our advice. Suitability is a key consideration when recommending our in-house investment management services to clients. The use of third parties for these services could potentially undermine this suitability focus, as these firms are not able to have the same level of deep understanding of our clients' personal aims and objectives and attitude to risk as we do (by virtue of our closer working relationship and relevant "Know Your Client" (KYC) information held).

We demonstrate our suitability approach as follows to help mitigate any conflicts of interest:

#### Discretionary Investment Management Service

##### Target market & suitability:

- the Discretionary service is our premium level of care
- generally, for those clients with assets/cash to invest of £200,000 plus
- for those clients who would prefer/appreciate the more bespoke & tailored active investment approach for their investments/pensions, using Cave's in-house investment expertise
- for those investors who have neither the time, nor the inclination, to manage their portfolio themselves
- collective investments (where used) are selected from the whole marketplace

#### Model Portfolio Serve (MPS)

##### Target market & suitability:

- generally, for those clients with assets/cash to invest of under £200,000
- clients who require access to a more straightforward, cost-effective way to still benefit from our in-house investment expertise, by offering an investment solution suitable to those who do not require a bespoke portfolio.
- collective investments (where used) are selected from the whole marketplace

Where these options are not considered suitable or appropriate, then our advisers are able to still utilise our in-house investment experience by way of fully researched market-wide fund options/solutions to select, on an advisory basis, for a client's portfolio.

**Definition of Independent Advice:**

Under FCA & EU legislation, Financial Advice firms are able to give either “Restricted Advice” or “independent Advice” and are required to disclose in good time the type of service they provide.

For firms offering Independent Advice, firms must assess a sufficient range\* of relevant products available on the market which must:

- Be sufficiently diverse with regard to their:
  - Type and
  - Issuers or product providers

To ensure that clients’ investment objectives can be suitably met; and

- Not be limited to relevant products issued or provided by:
  - The firm itself or by entities having close links with the firm; or
  - Other entities with which the firm has close legal or economic relationship, including contractual relationships, as to present a risk of impairing the independent basis of the advice provided

**Definition of Restricted Advice:**

Restricted Advice or “non-independent” advice is advice that does not meet the definition above or is classed as “basic advice” (which is the result of asking pre-scripted questions).

**Cave & Sons Ltd - an Independent Advice and Wealth Management Firm:**

Cave & Sons (Cave’s) offer independent advice. Cave’s uses a whole of market, independent approach to fund (and/or provider) selection. The firm is not tied to any fund manager, bank, or insurance company, and does not “own” or run its own funds.

Our choice of client investment custodian “Pershing Securities Ltd” allows us to offer a sufficiently diverse range of products and providers (primarily used for our Discretionary Investment Management service).

Our choice of client investment platform “Novia” allows us to offer a sufficiently diverse range of products (where used for our Model Portfolio Service (MPS)).

Cave’s offer holistic financial planning advice and can offer “Packaged Retail Investment Products” (PRIPs) to meet the long-term financial needs of its clients. (see appendix for a list of these)

\*Cave’s Discretionary Investment Management Service & MPS service are included in the “sufficient range” category (referred to above) but will only be recommended should they be suitable and appropriate to the client’s investment needs (Cave’s does not “own” or run its own funds).

For any products that we recommend we are not permitted to receive any inducements from the providers.

**b) Client orders**

In order to ensure as fair treatment as possible for clients, our Best Execution Policy requires us to take all sufficient steps to achieve the best overall trading result for clients.

On some occasions client orders may have a material effect on the relevant security's price. In order to ensure our staff do not take advantage of the situation by dealing on their own account (Personal Account Dealing) or encourage a third party to deal, we operate a 'No front running' policy whereby client orders will always take priority. We regularly monitor business transactions in order to ensure we meet these requirements.

**c) Personal account dealing**

An employee dealing policy that sets out Cave's conditions under which its staff may engage in investment activity for their own account

Our staff may buy, sell or hold the same investments as our clients. We control personal account deals by ensuring that all such deals are identified and where applicable approved by management prior to execution. All staff, irrespective of their position in the firm sign, on an annual basis, to confirm their understanding of our procedures.

**d) Inducements to staff**

Staff are not permitted to accept gifts, entertainment, or any other similar benefit (financial or non-financial) unless it enhances the quality of our firm's service and/or doesn't have a detrimental impact on the quality of service we provide.

If in doubt as to whether a benefit is allowable, all staff must consult the Compliance Officer or other senior manager with allocated responsibility before accepting it or decline to accept it.

A record of all allowable benefits is made and retained on the firm's inducements register.

Similarly, our staff are not allowed to place undue pressure on clients to persuade them to trade through the firm to the extent that this gives rise to a conflict of interest between that client and another client.

**e) Segregation of duties**

We strive to ensure that the performance of multiple functions by relevant persons does not, and is not likely to, prevent those persons from discharging any particular functions soundly, honestly and professionally. Our policies concerning the segregation of duties within the firm and the prevention of conflicts of interest are laid out below.

We are aware that effective segregation of duties is an important element in the internal controls of a firm in the prudential context. In particular, it helps to ensure that no one individual is completely free to commit the firm's assets or incur liabilities on its behalf. Segregation also helps to ensure that the firm's senior management receives objective and accurate information on financial performance, the risks faced by the firm and the adequacy of its systems.

We ensure that, in general, no single individual has unrestricted authority to do all of the following:

- a) Initiate a transaction
- b) Bind the firm
- c) Make payments, and
- d) Account for it

As a small firm, systems and controls do however have to be appropriate, considering the relative lack of complexity in the firm's operations. Where we are unable to ensure the complete segregation of duties due to a limited staff base, we have adequate compensating

controls in place including the frequent review of an area by relevant senior managers. The firm ensures that its relevant persons are aware of the procedures which must be followed for the proper discharge of their responsibilities.

#### **f) Remuneration policy**

All relevant staff who are open to a conflict of interest are paid a basic salary including those who hold key support areas such as compliance, finance and operations. This salary is not dependent on business performance. Relevant persons involved in the compliance function will not be directly involved in the performance of services or activities they monitor.

A bonus structure does exist which is linked to business performance, team performance or the individual's performance. This is at the discretion of the senior management and notified only on payment. In addition, we have implemented monitoring which includes reviewing the quality of advice given to clients, expediency of reporting to clients and response to compliance/training initiatives.

#### **g) Staff - POA / Trustee's**

Very occasionally members of staff may be asked to be a client's attorney or act as a trustee for a Trust(s) connected a client. In such cases, prior approval is needed from the firm's compliance manager before such positions can be accepted. Such client cases would be subject to a higher level of ongoing file monitoring. Standard practice is to not to undertake these roles.

#### **Disclosing conflicts**

If we are unable to put in place arrangements that are sufficient to prevent conflicts from adversely affecting our client's interests, we must disclose this to the client before carrying out any business on their behalf. Any disclosure made under this section will be as a last resort, as we expect to have effective organisational and administrative arrangements in place to prevent or manage conflicts. We will not make a disclosure before we have properly considered how we can reasonably manage a conflict to reduce the potential damage to the client's interests.

If we need to disclose, then we must disclose the general nature and source of the conflicts of interest and the steps we have taken to mitigate any risks. This disclosure must:

- be made in a durable medium (a letter or email);
- clearly state that we are reasonably confident the organisational and administrative arrangements we have in place will not prevent the risk of damage to the client's interest.
- include a specific description of the conflict explain what risks to the client might arise as a result of the conflict
- made before business is undertaken for the client.
- relate to specific conflicts of interest; and
- include sufficient detail to enable the client to take an informed decision about whether to proceed with the service offered by the firm.

- Declining to Act - Where we consider we are not able to manage the conflict of interest in any other way we may decline to act for the client.

**Appendix - Additional Information:**

**Retail Investment Products (also “Packaged” Retail Investment Products)**

A Retail Investment Product (RIP) is defined as:

<b>Product type</b>	<b>Includes</b>
a) Life policy	Including long term insurance contracts such as annuities and investment bonds
b) Unit	including collective investments such as unit trusts, OEICS and unregulated collectives
c) Stakeholder pension scheme (including a group stakeholder pension scheme)	
d) Personal pension scheme (including a group personal pension scheme)	Including SIPPs and income drawdown
e) Interest in an investment trust savings scheme	
f) Security in an investment trust	
g) Any other designated investment which offers exposure to underlying financial assets in a packaged form which modifies that exposure when compared with a direct holding in the financial asset	*See below
h) Structured capital-at-risk product	Structured products excluding structured deposits

\*It is the inclusion of (g) in the table above, which means the rules also capture advice on products that don't necessarily sit within the other types of products. These additional products include:

- Venture Capital Trust (VCT)
- Enterprise Investment Scheme (EIS)
- Exchange Traded Products (ETP)

The definition of a RIP is intentionally broad, to ensure all comparable investment products recommended to retail clients, including those developed in the future, are subject to the same standards.