



Fondbolagens förening

SWEDISH INVESTMENT FUND ASSOCIATION

Swedish Code of Conduct for fund management companies

Adopted by the Board of Directors of the Swedish Investment Fund Association on 6th December 2004. The Code was most recently revised on 13th May 2019.

Introduction

This Code is designed to promote sound fund activities and thereby to safeguard public confidence in the same. The Code comprises rules that exceed the standards imposed on fund management operations by legislative and other statutory requirements.¹

The Code takes into account the principles adopted by the European Fund and Asset Management Association, EFAMA.

The Code applies to the operations conducted by Swedish and foreign fund management companies in Sweden. Where the fund management company has delegated operations to another party, the fund management company shall strive to ensure that the principles of the Code, where relevant, are applied by the contractor.

In those sections where the Code exceeds the legislative and other statutory requirements, the principle to be applied is “comply or explain”, since the preconditions may vary for individual fund management companies with regard, for example, to organization and size. Foreign fund management companies may experience difficulties in complying with every aspect of the Code due to regulatory differences in their home countries. For Swedish fund management companies, however, the intention are that deviations shall not be permitted when the word “must” is used. Members of the Swedish Investment Fund Association must, in their Annual Reports or on their website, clearly state that they comply with the Code and must provide an explanation for any deviations.

The Code is complemented by concrete rules of conduct issued by the Association in other Guidelines. The Association has, in addition to this Code, issued the following Guidelines, which must be adhered to by its members:

- Guidelines for marketing and information by fund management companies
- Guidelines for fund management companies’ shareholder engagement
- Guidelines concerning trading in securities for own and related person’s account
- Guidelines for key ratio accounting of investment funds

¹ Primarily the Swedish Investment Funds Act (2004:46), the regulations issued by the Swedish Financial Supervisory Authority 2013:9, the Managers of Alternative Investments Act (2013:9) and regulation 2013:10.

A fund management company is tasked with managing the monies with which it is entrusted. The fund management company must behave with considerable integrity in the fulfillment of this position of trust. The fund management company must, in conjunction with the management of a fund, act exclusively in the common interests of the unit holders, which means that other interests must yield in the event of any conflicts of interest. The operations of the fund management company must be conducted in an honest, fair and professional manner and the conduct of the company and its operations must also otherwise be such that confidence in the fund management company and the sector is maintained. Any person representing a fund management company must act in an ethically acceptable manner.

Fund management companies may, in addition to their fund activities, be licensed to engage in individual portfolio management. This Code focuses primarily on the fund activities. In cases where the rules laid down in the Code may, in addition to unit holders, include clients in the individual portfolio management sector, the term “investor” is used.

A number of the concepts used in the Code are defined in appendix 1.

1. Managing the operations

Responsibility

The Board of Directors of the fund management company is responsible for the compliance of the fund management company with the rules laid down by law and other statutes that regulate the operations of the fund management company, with the Association’s Code of Conduct and guidelines, as well as with fund rules and given management mandates.

In order to ensure that it is able to fulfill its responsibilities to investors, the fund management company must act with the requisite independence in relation to various interested parties. The fund management company must ensure that the organization of the fund management company is such as to achieve this end.

When ensuring and verifying a fund’s general investment policy, strategies and risk limits, the Board should put the common interest of the unit-holders first. Thereby the Board must evaluate on an ongoing basis that the fund’s objectives, risk profile, activity level and returns are consistent with the information about the fund provided in, inter alia, the Key Investor Information Document.

Independent Board members

Ensuring that the fund management company acts exclusively in the common interests of the unit-holders in conjunction with the management of a fund is achieved primarily through openness and the provision of reliable information. The safeguarding of the unit-holders' interests should be further ensured by the presence of independent members on the Board of Directors of the fund management company.

At least half of the members of a fund management company's Board of Directors should be independent in relation to the fund management company and its associated companies, and to the management of the company or its associated companies. All members of the Board, however, have the same responsibilities.

A member is not deemed to be independent if he or she

- is employed by the company or an associated company,
- has been employed by either of the above during the last three years,
- is closely associated with a person in the management of the said companies,
- receives a not insignificant remuneration, over and above Director's fees,
- has extensive commercial links with or represents a party that has extensive commercial links with the fund management company or its associated companies.

At least one of the Board members who shall be regarded as independent in the manner prescribed above must also be independent in relation to the company's major shareholders. A Board member who represents a major owner or is an employee or a Board member of a company that is a major owner shall not be regarded as independent. The term, major shareholder, refers to owners who, through either direct or indirect ownership of the company,² represents ten per cent or more of the capital or of all votes in the company or whose holding otherwise enables them to exert a controlling influence over the management of the company.

The mere fact that a Board member has a seat on the Board of more than one fund management company within a corporate group does not mean that the member is disqualified from classification as independent.

² If a company owns more than 50 per cent of the capital or votes in another company, the former company is deemed to indirectly control the latter company's ownership of other companies.

2. Conflicts of interest

Identification and handling of conflicts of interest

The fund management company must establish internal rules detailing the way in which the company identifies and handles conflicts of interest. The identification of conflicts of interest in relation to any party with whom the fund management company is closely associated is particularly important.

The fund management company's internal rules must, if the fund management company and the depositary for a fund managed by the fund management company are closely associated, specifically state the manner in which the company's organization ensures that the fund management company acts independently of the depositary and reduces the risk of conflicts of interest.

Remuneration principles

The fund management company must, as part of its fund management operations, formulate a remuneration policy in respect of all employees that corresponds to the interests of the unit-holders³. The remuneration policy must promote sound and effective risk management and must not encourage risk-taking which is inconsistent with a managed fund's risk profile or fund rules.

3. Service providers and commercial partners

Service providers

The fund management company should have clear internal rules with regard to service provider agreements with third parties.

The fund management company can never transfer responsibility for its activities to another party and must hence maintain control over functions carried out by service providers. When management is delegated, the fund management company must conduct monitoring on an ongoing basis to ensure that investment decisions comply with the fund rules and the fund management company's internal rules for the fund, and, where relevant, with instructions issued by investors.

³ Rules on remuneration are found in the Investment Funds Act and FFFS 2013:9 and additionally in the Act on Alternative Investment Fund Managers and FFFS 2013:10.

External distribution

The fund management company should, by means of written agreements with distributors, work to ensure that the distributor undertakes to comply with the Swedish Investment Fund Association's Guidelines for marketing and information by fund management companies, in connection with his or her brokering of the fund management company's funds.

The fund management company must provide the distributor with the necessary product information and support with regard to the fund management company's fund products so that best practices regarding financial advice can be maintained.

Brokers and other trading partners

The fund management company must have a documented process for choosing brokers and other trading partners. When choosing partners for the execution of orders, the partner's ability to provide investment research must not be taken into account.

Costs for investment research may be charged with the fund only where the research enhances the quality of the fund management and the unit-holders have been duly informed. This requires that the benefit of the research is considered to correspond to the costs. The costs for research must be separated from the costs for execution of orders.

The above mentioned must be monitored by the Board of Directors or the CEO.

Income from securities loans

Any income derived from securities loans must accrue to the fund.

Trading with associated companies

The fund management company must, in its Annual Report, indicate the extent to which the fund's investments in equities etc in conjunction with an IPO, or similar, have been conducted through associated securities dealers.

4. Asset valuation

Valuation of the portfolio

The activities of the fund management company should be organised in such a manner that the valuation of assets is distinct from the management function.

The fund's assets must be assigned a correct value. Assets and liabilities must be valued at the market rate on objective grounds specified in advance e.g. using independent sources for valuation, or specified valuation models.

Net asset value calculation

The fund management company must maintain internal rules for the calculation of the net asset value, and must have internal verification procedures to ensure that the calculation of the net asset value is reliable and

complies with legislative, statutory and fund provisions. Routines must also be in place for handling cases where errors have occurred in pricing.

Returns and net asset values must, when published, be specified after deductions for all costs and charges in the fund.

5. Fund trading

Late trading, market timing and short-term trading

Sale and redemption of fund units must occur at an unknown price to ensure that all unit-holders are treated equally and to eliminate the risk of late trading.

The fund management company must take steps to limit the opportunity for market timing (exploitation of time zone differences).

Charges

If purchase and redemption charges are levied, the fund management company must state whether the charge accrues to the fund management company or the fund. If such charges are levied in order to prevent short-term trading, they should accrue to the fund.

Retrocession or discounts

If retrocession or discounts apply in connection with the fund's trading in units of other funds, they should accrue to the fund.

6. Shareholder engagement

Fund management companies, acting on behalf of the unit-holders and the fund, play a role as shareholders in the companies in which the fund management company has chosen to invest. The role as shareholder must be exercised exclusively in the common interests of the unit-holders. Other interests, such as those of the fund management company or associated companies, must hence always yield in the event of any conflicts of interest.

The fund management company must establish and disclose principles for shareholder engagement and report on the monitoring of the engagement. Further details on the content of the principles and the monitoring can be found in the Guidelines for fund management companies' shareholder engagement.

7. Marketing

All marketing material must be formulated in accordance with generally accepted marketing practices, which are described in greater detail in the Swedish Investment Fund Association's Guidelines for marketing and information etc by fund management companies. The guidelines include an

agreement with the Swedish Consumer Agency stipulating, amongst other things, that all marketing of funds must include risk information.

8. Target market for a fund

The fund management company should have a process in order to specify an identified target market of end clients for a fund. The fund must be designed to meet the needs of the identified target market and the risks and distribution strategies must be consistent with the identified target market.

The fund management company must regularly review and assess whether the fund and the distribution strategy remains consistent with the identified target market. When doing so events that could materially affect the risk must be taken into account.

For appendix 1, sources and definitions, see the Swedish version of this document.