
**Rules of Conduct
of the**

Industry Organisation for Asset Management

of the

VQF Financial Services Standards Association

regarding the

Practice of Asset Management

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The Management Board of the VQF Financial Services Standards Association (hereinafter: "VQF") issues the present rules of conduct for the practice of asset management (hereinafter: "rules of conduct") based on Art. 19 Para. 1 of the VQF by-laws (hereinafter: "by-laws").

Preamble:

The aim of the following rules of conduct is to contribute to the protection and promotion of the reputation of Swiss asset management at home and abroad with particular reference to the high quality thereof. Clients who entrust their funds to Swiss asset managers¹ should be able to be confident that their assets will be managed professionally and in their interests.

The asset managers who are subject to these rules of conduct undertake to make an effective contribution to protecting investors and to protect the reputation of the professional body of asset managers by observing these rules of conduct.

1. General Provisions

Art. 1 Purpose of these Rules of Conduct

¹ When exercising their activity, asset managers are obliged to observe a code of business ethics of qualitative high standing as befitting their profession.

² The present rules of conduct define what asset managers subject to their jurisdiction must understand as a code of business ethics of qualitative high standing as befitting their profession (Art. 1 Para. 1 of the Rules of Conduct) and impeccable business activity: the rules of conduct represent professional standards for asset managers. By virtue of the approval of these rules of conduct as a minimum standard by the Swiss Financial Market Supervisory Authority (hereinafter: "FINMA"), as the industry organisation for asset management the VQF is responsible for controlling implementation of and compliance with these rules of conduct.

³ The relationship between the asset manager and his client under civil law is based on the provisions of the law (in particular Art. 394 et seq. of the Swiss Code of Obligations) as well as the respective contractual agreements between the asset manager and his client (asset management agreement, general terms and conditions etc.). Asset managers must comply with the legal and contractual provisions which form the basis for the practice of their activity as independent asset managers.

⁴ These rules of conduct do not affect the statutory duties of the VQF with regard to confidentiality (Art. 19 Para. 7 and Art. 22 Para. 5 of the By-laws).

¹ Note with regard to the use of the masculine form: the masculine form used in these rules of conduct incorporates the feminine form.

2. Asset Management Agreement

Art. 2 Form

¹ The asset manager concludes a written asset management agreement with his client.

Art. 3 Content

¹ The written asset management agreement concluded with the client (or the appendices thereto) must include the following minimum information:

- a. Parties.
- b. Duration and scope of the asset manager's authority.
- c. Investment goals and restrictions.
- d. Reference currency.
- e. Method and interval of reporting to the client.
- f. Amount, principles of calculation and modalities of compensation of the asset manager for the execution of the asset management agreement.
- g. Options for the delegation of responsibilities to third parties.
- h. Asset manager's duty to maintain confidentiality.

² If the agreement mentions investment restrictions, this is done by naming appropriate categories. The following categories, in particular, may be included:

- a. Investment products.
- b. Quality and negotiability of investment products.
- c. Industry sectors.
- d. Currencies.
- e. Countries.
- f. Maximum commitment in the categories (letters a - e).

³ If a fully discretionary asset management agreement is made, in principle the asset manager must comply with the relevant directives for asset management agreements issued by the Swiss Bankers Association (especially numerals 8 – 14 of those directives). However, in doing so it must be borne in mind that these directives are aimed at banks subject to the Swiss Federal Law on Banks and Savings Institutions (BankG). The aforementioned directives must be applied accordingly to the asset manager's specific activity when practising fully discretionary asset management. It is possible to restrict the asset manager's scope for discretion in fully discretionary asset management by means of special regulations in the asset management agreement (Art. 3 Para. 2 of the Rules of Conduct).

3. Duties of the Asset Manager

3.1 Guarantee

Art. 4 Duty of Guarantee

¹ The asset manager guarantees impeccable business activity.

3.2 Duties of Trust

Art. 5 General

¹ The asset manager always protects his client's interests while exercising his activity as an asset manager.

² In order to protect his client's interests, the asset manager must, in particular:

- a. Avoid conflicts of interest (Art. 6 of the Rules of Conduct).
- b. Maintain confidentiality in regard to facts and determinations while practising his asset management activity (Art. 7 of the Rules of Conduct).
- c. Provide the client with the information which he needs in order to be able to take appropriate and adequate decisions in accordance with his interests (Art. 8 of the Rules of Conduct).
- d. Give proper account of the practice of asset management (Art. 9 of the Rules of Conduct).

³ Asset managers of Swiss collective capital investment schemes must act independently in accordance with Art. 20 of the Swiss Law on Capital Collective Investments (hereinafter: "KAG") and must exclusively protect the interests of the investor (compliance with the requirements of Art. 31 and 32 of the Ordinance on Collective Capital Investments [hereinafter: "KKV"]).

Art. 6 Prevention of Conflicts of Interest

¹ The asset manager takes expedient organisational measures in order to prevent conflicts of interest from arising between him or his employees and the client and in order to exclude the possibility of client disadvantage due to such conflicts of interest. If, by way of exception and despite the aforementioned measures it is not possible to prevent prejudice to the client's interest due to the conflict situation, the asset manager discloses this to the client in a suitable manner.

² The modalities or incentives of compensation for the persons charged with asset management are designed in such a way as to prevent conflict with the duty of trust.

³ In accordance with Art. 33 Para. 1 KKV, managers of Swiss collective capital investment schemes ensure that decision-making (asset management), execution (trading and processing) and administration functions are effectively separated.

Art. 7 *Duty of Confidentiality*

¹ The asset manager maintains confidentiality on all information of a confidential nature which comes into his possession within the context of the exercising of his asset management activity.

² The above is subject to duty of certification and the submission of information to authorities in accordance with the provisions of the law and the duty of disclosure to the VQF.

Art. 8 *Duty of Investigation, Clarification and Information*

¹ The asset manager refers his client to the rules of conduct. The asset manager can give the client a copy of the applicable rules of conduct.

² Prior to and during the period in which he carries on asset management activity, the asset manager obtains all information which allows him to be in a position to recommend and implement appropriate asset management (investment strategy) in accordance with the client's needs (know your customer rule), especially with regard to:

- a. The client's experience and knowledge relating to the management of assets.
- b. Income and asset circumstances.
- c. Investment purpose.
- d. Investment horizon.
- e. Readiness and capacity to assume risk (risk profile).
- f. Reference currency (the currency on which the investment strategy is based and the investment portfolio is assessed).

³ Consequently, in a suitable manner in accordance with the client's level of experience and knowledge in asset investment affairs, the asset manager then

clarifies for the client the risks associated with the agreed investment goals, strategies and restrictions as well as their implementation and the risks of the actual investments. This information can be provided in a standardised format.

⁴ The asset manager informs his client of changes in personnel, organisation or the circumstances of ownership, provided that such information directly concerns the client and is not public knowledge.

⁵ In the event of significant market movements leading to a permanent change in the investment strategy at variance from the agreed investment goals, the asset manager informs the client and discusses with him an adjustment of the investment strategy within the scope of the available options. The asset manager always acts in the client's interest.

Art. 9 Duty of Accountability

¹ On demand, but at least once annually, the asset manager renders suitable account to his client of his activity as asset manager. A longer period may be selected if the client expressly agrees.

² The information must be truthful and complete. Where appropriate, relevant supporting documents must be presented to the client.

³ In the context of his duty to render due account, the asset manager observes the standards prevalent in the asset management industry (e.g. global investment performance standards). This applies, in particular, with regard to the method of calculation used, the selected time period and, where appropriate, the selected benchmark.

Art. 10 Handling the Client's Instructions

¹ The client has directive authority over the asset manager.

² On receipt of the client's instructions, the asset manager verifies that these instructions are in accordance with the agreements made in the asset management agreement (especially with regard to the agreed investment principles).

³ If the instruction is not within the scope of the asset management agreement (especially if it is not in accordance with the agreed investment principles) or it is technically impossible to execute the instruction, after examining the circumstances the asset manager informs the client of this inconsistency and explains the reasons in a suitable manner. At the same time, the asset manager points out the consequences and any risks associated with pursuing the instruction. The asset manager's response is documented in writing.

⁴ If the client gives an instruction that is unclear, contradictory or incomplete, the asset manager seeks clarity on the given instruction in an appropriate manner. The asset manager documents the clarification in writing.

Art. 11 Investments and Transactions

¹ Investments and transactions are always made in the interests of the client.

² The asset manager refrains from all activities which might be considered inappropriate in the context of the investment policy agreed with the client, in particular:

- a. Churning (unreasonably frequent turnover of a client deposit which does not serve the attainment of the investment goal; rather, it serves only the optimisation of the asset manager's own fee and commission income).
- b. Front, parallel and after-running (exploitation of knowledge gained from client orders for the advance, parallel or directly subsequent execution of the asset manager's own concurrent transactions), insofar as such is in contradiction of the duty of trust.

Art. 12 Choice of Depositary Location

¹ If the asset manager advises his client on the choice of depositary location, in doing so he acts independently and in the client's interest. In this case only the services offered directly or indirectly to the client by the depositary bank may be considered.

Art. 13 Choice of Counterparty

¹ In accordance with Art. 22 KAG, in the case of stock trading and other transactions asset managers of Swiss collective capital investment schemes suitably ensure that the counterparty offers a guarantee of the best possible fulfilment of transactions in regard to personal, time and qualitative aspects. Appropriate care is taken in the choice of counterparty.

² The choice of counterparty is validated at regular intervals.

³ Agreements which restrict the freedom of choice of asset managers of Swiss collective capital investment schemes or their agents are not permitted.

3.3 Duties of Due Diligence

Art. 14 Organisational Measures

¹ In exercising his asset management activity, the asset manager provides a professional organisation commensurate with the operating circumstances taking account of the following criteria:

- a. Number of clients.
- b. Volume of managed assets.
- c. Investment strategies employed.
- d. Selected investment products.

² An adequate, professional organisation requires the asset manager and the persons he employs (employees, auxiliary personnel etc.) to possess the necessary specialist knowledge in all fields of their professional activity and to undergo regular training.

³ The asset manager takes appropriate action to ensure that his client's interests are protected even if he is unable to continue his professional activity due to incapacity or death. The client is informed of the pertinent measures in suitable manner.

Art. 15 Measures relating to the Execution of the Asset Management Order

¹ The asset manager selects the investments to be included in the client's investment portfolio with due care.

² The asset manager guarantees an adequate distribution of risk on the managed assets (adequate diversification principle), provided that the investment strategies or goals allow this.

³ The asset manager regularly monitors the investment deposit assigned to him for management. He ensures that the investments are permanently in accordance with:

- a. The asset management agreement (especially the investment goals and restrictions); and
- b. The client's risk profile.

⁴ The client's risk profile and the investment strategies employed are reviewed periodically. If the risk profile no longer corresponds to the client's current situation, the client must be made aware of this and this must be recorded in writing.

⁵ In accordance with Art. 21 Para. 1 KAG, asset managers of Swiss collective capital investment schemes pursue an investment policy which is permanently in accordance with the investment characteristics for the collective capital investment defined in the corresponding documents.

Art. 16 Acceptance of Assets and the Management of Assets deposited at Banks

¹ Unless the asset manager is authorised by FINMA to act as a securities dealer, he accepts no assets from the client and manages no transaction accounts. Assets entrusted to the asset manager for his management which are deposited with a bank or securities dealer are managed on the basis of clearly defined authorisation given in writing.

Art. 17 Delegation of Asset Management Duties

¹ The asset manager can delegate asset management duties to third parties.

² When delegating asset management duties, account must be taken of the following:

- a. Delegation takes place in the interest of the client, i.e. in the interest of proper asset management.

- b. The asset manager chooses his representative carefully in the interest of his clients.
- c. The asset manager only appoints third parties who are in a position to guarantee the impeccable execution of the delegated duties. In particular, third parties must possess the necessary professional qualifications and appropriate specialist knowledge.
- d. In addition, the asset manager vouches for the careful instruction and monitoring of the representative with regard to the delegated duties.
- e. The delegated duties are defined and documented in writing.
- f. The representative complies with rules of conduct which are comparable with the present rules of conduct.

³ FINMA-approved fund management companies must take account of FINMA Circular 08/37 Delegation by Fund Management Companies / SICAVs.

4. Compensation

Art. 18 Content of Compensation

¹ The asset manager defines all types, modalities and elements of his compensation resulting from the specific asset management agreement in the asset management agreement with the client or in the appendices thereto:

- a. "Type of compensation" means, in particular, a fee agreed with the client (e.g. in accordance with the scope of the assets under management and/or on a time and expenditure basis) or third party benefits (retrocessions, kick-backs, finder's fees etc.) which are due for payment.
- b. "Modalities of compensation" mean the time at which and the manner in which the compensation becomes due for payment.
- c. "Elements of compensation" mean, in particular, the amount of compensation or the relationship thereof to the assets which the client has entrusted to the asset manager for his management.

Art. 19 Third Party Benefits

¹ If in the context of his asset management activity or at the time of order fulfilment the asset manager receives third party benefits (retrocessions, kick-backs, finder's fees, portfolio maintenance commissions etc.), the asset management agreement or appendix thereto must give clear information as to the principle supporting the legal assignment of these benefits.

² If the asset manager retains the third party benefits the client must issue a written waiver declaration concerning the transfer of retrocessions. The waiver declaration must not be effected by way of the general terms and conditions.

³ The asset manager makes the client aware in suitable manner of conflicts of interest which may arise from the acceptance of third party benefits.

⁴ The asset manager informs the client of the calculation parameters and the margin of the benefits which he receives or could receive from third parties. In doing so, the asset manager differentiates – as far as possible – between the various product categories. This information can be provided in a standardised format (e.g. by means of a factsheet).

⁵ At the client's request, the asset manager must disclose the amount of the benefits already received from third parties.

5. Final Provisions

Art. 20 Severability Clause

¹ If individual provisions of these rules of conduct are ineffective or unworkable or become ineffective or unworkable during the validity period of the rules of conduct, the effectiveness and binding nature of the rules of conduct remain otherwise unaffected. The ineffective or unworkable provision is replaced by an effective and workable provision the effects of which come closest (primarily) to the association's purpose and (secondarily) to the purpose of the ineffective or unworkable provision.

Art. 21 Entry into Force

¹ The Management Board of the VQF issued these rules of conduct. These rules of conduct were approved by FINMA on 6 December 2013.

² These rules of conduct enter into force on 1 January 2014.

Art. 22 Temporary Arrangements

¹ Full compliance must be maintained with the provisions of these rules of conduct with regard to asset management agreements concluded after the entry into force of these rules of conduct.

² In regard to asset management agreements which were initiated prior to the entry into force of these rules of conduct and not yet concluded at the time of the entry into force of these rules of conduct, which complied with the rules of conduct of 25 February 2009, a transitional period until 31 December 2014 is granted for the (formal) adjustment of these existing asset management agreements in accordance with these rules of conduct.

³ Asset managers who are new to subordinate themselves to these rules of conduct must adjust the asset management agreements that were not yet completed at the time of subordination in line with these rules of conduct within six months.

⁴ However, the practicing of asset management on behalf of clients in the absence of agreements still requiring formal adjustment (Art. 22 Paras. 2 and 3 of the Rules of Conduct) when subject to these rules of conduct must otherwise satisfy the material requirements of these rules of conduct (duties of guarantee, trust, due diligence and information as well as the regulation on compensation).

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