

Product Governance Policy

City Financial Investment Company Limited

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1. INTRODUCTION

New products manufactured or distributed by firms after 3 January 2018 are required to comply with the MiFID II product governance rule requirements. The products City Financial Investment Company ("City Financial" or "the Firm") manufactures are UCITS, Alternative Investment Funds and Model Portfolios sold via a platform. The Firm undertakes an assessment to ensure that the products it manufactures meet the needs of its target market.

As a manufacturer of financial instruments ("products"), City Financial will ensure that it has appropriate systems and controls in place that will ensure that all products manufactured will:

- Meet the needs of target markets identified for specific products;
- Be sold to clients in the target markets via appropriate distribution channels; and
- Deliver appropriate client outcomes.

City Financial understands that the rules regarding manufacture are to be applied to the Firm in a proportionate way, taking into consideration the nature of the product manufactured, as well as the target market worked within.

2. ASSESSMENT CRITERIA FOR MANUFACTURING

2.1 Identification of a target market of end clients – when determining the appropriate target market for a product City Financial will undertake both quantitative and qualitative analysis.

The Firm will consider:

- 2.1.1 Knowledge and experience:** the level of knowledge and/or experience that clients will need to have in order to be suitable for each product manufactured will be confirmed. For example, the relevant financial instrument type, features of the products and/or their knowledge in thematically-related areas that could help the client understand the product will be considered.
- 2.1.2 Financial situation with a focus on the ability to bear losses:** Information about the amount of losses, e.g. minor loss to total loss, that clients should be able and willing to afford will be provided. The Firm will express this as a maximum proportion of net investable assets that should be invested.
- 2.1.3 Risk tolerance and compatibility of the risk/reward profile of the product with the target market:** The general attitude that clients will need in regard to the risks associated with investing in each product manufactured will be specified. Criteria that must be met in order to meet a specific risk/reward profile are documented. The Firm will apply the risk indicators specified by the PRIIPs Regulation/UCITS Directive to fulfil this requirement.
- 2.1.4 Client's objectives:** When manufacturing each product, the investment objective for target clients will be confirmed. The Firm will consider whether the new product will meet the wider financial goals of the target clients and/or will meet their overall investment strategy. Consideration will be given to the expected investment horizon or whether particular aspects of the investment meet the client's needs or expectations.
- 2.1.5 Client's needs:** The client's needs will be considered when manufacturing products, particularly in regard to the investment expectations of the client. The impact of age, country of tax residence as well as special features of the products manufactured will also be considered.

In summary, when balancing both quantitative and qualitative analysis, during the manufacturing process City Financial will determine:

- How the product meets the needs of its clients;
- Whether the characteristics and objectives of the product are compatible with its clients;
- Whether there are any clients or group of clients for whom the product is not suitable ("negative target market"), taking into consideration their needs as well as the characteristics and objectives of the product;
- The risk/reward profile of the product and whether this is in line with composition of the target market; and
- Whether the product and features of the product will result in benefit to its clients.

Where a product is not suitable for a client or group of clients, City Financial will document this in relevant Fund documentation. Items 2.1.1-2.1.4 will be incorporated in new client on-boarding packs.

Where City Financial is both the manufacturer and distributor, only one target market will need to be identified.

The Firm may identify clients who it believes are not compatible on a theoretical basis and is aware that distributors will need to bear this in mind when undertaking their own analysis.

2.2 Conflicts of interest assessment – a thorough assessment of the conflicts of interests faced by the Firm should be conducted prior to manufacturing/manufacturing and distributing the product and thereafter on an ongoing basis. As part of City Financial’s conflicts of interest assessment it will consider whether clients could be adversely affected:

- If they take an exposure opposite to the one previously held by the Firm itself;
- If they take an exposure opposite to the one that the Firm wants to hold after the sale of the product.

Other conflicts of interest that the Firm will consider as part of the assessment process include:

- Remuneration arrangements;
- Impact on market integrity;
- Misuse of information or possession of material non-public information;
- Public statements;
- Inducements, including gifts and entertainment;
- Outside business interests;
- Personal interest in the product;
- Preferential terms;
- Capacity constraints of the product; and
- Different or overlapping strategies and mandates.

2.3 Scenario Testing:

City Financial will undertake scenario testing on the product in order to determine the risks of poor outcomes for clients. Scenario testing will consider how the product could be affected:

- If the market environment deteriorated;
- Should the Firm’s financial position deteriorate or it experiences financial difficulties;
- Should the product no longer be commercially viable; or
- Should the demand for the product be higher than anticipated, and therefore affect our financial position or the market of the underlying instrument.

In addition, the Firm will consider the charging structure for each proposed product and will assess whether the costs and charges are compatible with the needs, objectives and characteristics of the target market. It will also be determined if the charging structure is sufficiently transparent and whether charges could undermine the anticipated returns for the product, taking into account whether costs or charges will exceed, match or remove all tax advantages associated with the financial instrument. It will be determined that clients do not face unreasonable post-sale barriers such as high exit fees or restrictions on making a complaint.

Scenario testing for each new product will be documented and reviewed by the Risk Management Committee periodically.

2.4 Distribution strategy:

City Financial will confirm the distribution channels by which products will be distributed.

Where a third party distributes products, City Financial requests information on product sales to ensure that it is able to confirm that products are not being mis-sold and to determine if changes need to be made to the distribution arrangements or changes to the target market.

The Firm will take reasonable steps to ensure that products that are distributed on its behalf are provided to the identified target market. City Financial will choose distributors whose types of clients and services offered are compatible with the target market of the product as well as ensure that a mutual understanding of terminology in regards to the target market assessment and distribution strategy exists. The distributor will be provided with sufficient information about the target market and its needs, as well as the proposed type of investment service through which the client can acquire the product. City

Financial understands that it needs to provide the distributor with information on its approval process. The following factors when selecting distributors are reviewed:

- the distributor's understanding and/or previous experience of how a similar product has been distributed to the identified end clients;
- the financial markets; and
- characteristics, needs and objectives of the end clients.

Where City Financial distribute its own products it produces information on product sales to ensure that it is able to confirm that products are not being mis-sold and to determine if changes need to be made to the distribution arrangements or target market. The Firm will take reasonable steps to ensure that any products it distributes are provided to the identified target market.

3. APPROVAL PROCESS

As a manufacturer, City Financial has a process in place by which it can maintain, operate and review the process for the approval of each product, as well as any material changes to an existing product, prior to marketing or distribution being undertaken.

In order to approve a new product, or changes to an existing product, the sales team will need to seek approval from Compliance. As part of the approval process the Firm will:

- Confirm information about identified target market, including the client categorisation of the end clients;
- Assess all relevant risks to the target market; and
- Confirm distribution channels and the distribution strategy are consistent with the target market.

The Firm's Board will receive regular updates on the product development process. Information provided will include a summary of the new products in development, a summary of target market assessments undertaken for new products, discussion of potential conflicts arising as well as the results of scenario-testing analysis.

4. REGULAR REVIEW

The Firm will undertake periodic reviews of the products which it manufactures to confirm they remain consistent with the needs, characteristics and objectives of the target market. The Firm will also consider:

- products continued to be distributed to the target market;
- whether the distribution channels employed remain appropriate;
- the proportion of sales outside the target market;
- information about the types of clients; and
- any complaints received, as well as any client feedback.

This review should also assist in identifying if any products require review prior to further issue and identifying any events that would affect the potential risk or returns of the product. In addition, distributors will provide the Firm with information on product sales as well as any other relevant information that arises from their own periodic reviews, and this information will be reviewed as part our review.

The Firm will maintain a register of new products being developed and the current product manager. Periodic reviews will be undertaken by the Compliance team and the New Product Governance Committee.

5. TRAINING

It will be ensured that all staff involved in the manufacture of new products possesses the necessary expertise, particularly in relation to their understanding of characteristics and risks associated with the financial instruments that will be manufactured.

6. COLLABORATION

Where City Financial collaborates with another firm to manufacture a product, the Firm will ensure that there is an agreement in place with sets out the responsibilities for each Firm.

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