



# Children's Education Funds Inc. (CEFI)

## CONFLICTS DISCLOSURE

### **Conflicts of Interest – What are they, how do they Impact you and how do we address them?**

Children's Education Funds Inc. (**CEFI** or **we**) manages, administers and sells scholarship or education savings plans (the **Plans**) known as The Children's Education Trust of Canada.

In the course of providing services to you, there will be situations where a conflict will arise between our interests and yours. These conflicts may be actual conflicts of interest or you may perceive that we have a conflict of interest. Conflicts can give rise to a concern that we or our representatives may act or will act with a view to their own business or personal interest which may result in our or our representative's financial gain. Conflicts can also arise in circumstances where there are differing interests amongst clients, which may lead to a perception that we will be favouring a client or set of clients over other clients.

We seek to identify conflicts and if we conclude we have a conflict of interest, we address it in the best interests of the Plans and our clients. We seek to avoid or minimize conflicts where reasonably possible. We seek to avoid actual or perceived favouritism or discrimination amongst clients and to ensure that no client receives preferential treatment over another in providing financial products and services to you.

Conflicts of interest inherent in our actions as the manager and administrator of the Plans are addressed in the best interests of the Plans. We refer those conflicts of interest and how we address them to the independent review committee (**IRC**) of the Plans. You can access the IRC's annual report to Plan holders here <https://www.cefi.ca/regulatory-documents/> for a description of the conflicts of interest we have referred to the IRC, in our capacity as the manager and administrator of the Plans.

This document describes the conflicts of interest inherent in our and our representatives' activities as the distributor of the Plans. Canadian securities laws require us to take reasonable steps to identify and respond to material conflicts of interest in your best interest and tell you about them. This Conflicts Disclosure identifies which conflicts of interest we consider are material when we and our representatives distribute the Plans to you. We also describe the potential impact on and risk that the conflict could pose to you and how we address the conflict to minimize its impact and risks to you and our other clients.

In situations that we do not or cannot avoid a conflict of interest,

where our interests may compete with yours, we will always strive to give your interests priority to ours, which allows you to be confident that we address conflicts in your best interest. Generally speaking and unless otherwise specified, we deal with and manage conflicts as follows:

- We avoid conflicts which are prohibited by law as well as conflicts that we cannot effectively control.
- Our representatives are required to comply with various policies and procedures, which are designed to seek to ensure that our representatives follow ethical and client-first business practices. These policies and procedures include our code of Conduct. We have a robust oversight process and provide training to our representatives to ensure that these policies and procedures are effective.
- We control or manage acceptable conflicts by physically separating different business functions and restricting the internal exchange of information.
- For each material conflict, we seek to resolve it in your best interest.
- We disclose information about conflicts material to you so that you can assess independently if these conflicts are significant to you.

#### **Material Conflicts of Interest**

Below is important information that will help you be fully informed about our material conflicts of interest in our capacity as distributor of the Plans.

#### **CEFI only distributes the Plans**

CEFI and its representatives are only permitted to recommend that you invest in the Plans. It is the nature of our business model and our securities registration that requires us to focus only on the Plans. Although we will always consider whether an investment in the Plans is suitable for you, based on the information you provide us about, among other things, your investment goals, your financial circumstances and risk profile, we will not consider whether any other investment product or service would be better, worse or equal in meeting your investment needs and objectives.

## **Relationships with the Plans**

CEFI is a separate company to the Children's Educational Foundation of Canada (the **Foundation**). The Foundation is under common management with CEFI and directors of CEFI are also directors of the Foundation. The Foundation also has independent directors. Notwithstanding the common management and directors, the business of CEFI as distributor of the Plans is operated separately from the Foundation. It is the business model of CEFI and the Foundation that our mutual focus is on the sponsorship, administration, management and distribution of the Plans. Among other things, in this way we can achieve cost savings for the Plans and our clients. We consider that our relationship means we share a common objective of better serving the financial needs of our clients.

## **Compensation of CEFI as Distributor**

Compensation paid to CEFI as distributor is in the form of the sales charges you pay to us in connection with your investment in the Plans. Administration fees are charged to the Plans and these administration fees are paid to compensate CEFI as manager and administrator of the Plans. You receive information about the sales charges before you decide to invest in the Plans and the prospectus for the Plans set out this information.

## **Compensation to CEFI in Sale of Plan Completion Insurance**

When you invest in the Group Plan (other than via a one-time payment and in other specified circumstances), you are required to buy completion insurance and you pay premiums to the insurance company (CUMIS Life Insurance Company). We are compensated by CUMIS for our administration of this insurance and the processing of the premiums through payment to us of 67% of the premiums. This information is disclosed to clients in the prospectus of the Plans and is brought to your attention before you invest in the Group Plan. We ensure that the fees received are commensurate with our services in processing the premiums.

## **Compensation of Representatives and Branch Managers**

Our representatives are compensated for their services to you, and for distributing the Plans through commissions. They receive a portion of the sales charges that you pay when you open a Plan. These sales charges may differ depending on the Plan you open. Representatives' income therefore is dependent on the amount of units you agree to purchase in the case of a Group Option Plan or in the case of an Achievers Plan, the amount you decide to contribute. This may incent them to encourage you to acquire additional units or contribute more to a Plan or a specific Plan. You will receive full written disclosure of the sales charge between different Plans before you purchase your Plan.

The Self-Initiated Option Plan, unlike the other Plans that we administer, includes an option for you to not make contributions and only consist of the Canada Learning Bond. In this case, a sales charge does not apply and we pay the representative's commission from our revenues. A Self-Initiated Option Plan can also be opened when a Group Option Plan is automatically

transferred to the Self-Initiated Option Plan. When this happens, no compensation is paid to the representative.

Except for the circumstances described above, the sales charge for the Self-Initiated Option Plan is \$200 per plan and the representative earns a smaller commission on the sale of a Self-Initiated Option Plan when compared with our other two Plans. However, when representatives sell Self-Initiated Option Plans and when Contributions are made, representatives are eligible to earn ongoing quarterly compensation of 0.75% , which we pay from our revenues, for ongoing services to you during the life of your Plan, for the life of your Self-Initiated Option Plan based on the amounts in the Plan at the end of each quarter.

Our policies and procedures require representatives to only make recommendations that are suitable for you, based on your financial circumstances and investment objectives, and that put your interests first. Representatives are subject to financial penalties (deductions from future commission payments or rebates) if you cancel or change your Plan to reduce your investment within a specified period of time. In this way, we seek to mitigate this conflict of interest in your best interest.

Branch managers are responsible for supervising representatives. They are paid commissions and compensation based on the amounts sold by the representatives they supervise. This may incent branch managers to approve applications for a Plan when it may not be suitable for the subscriber. We address this conflict of interest through supervision of branch managers, by individuals whose sole focus is ensuring compliance, in particular ensuring that all applications for Plans are suitable for the clients. These individuals are compensated by salary and have authority to reject applications if they consider that they are not suitable for you.

## **Sales Incentives provided by CEFI**

We provide sales incentives to our representatives, including rewards, such as qualifications for annual off-site educational conferences that we pay for. This may give rise to a perception that representatives are incented to encourage you to acquire additional units or contribute more to a Plan.

Our policies and procedures require representatives to only make recommendations that are suitable for you, based on your financial circumstances and investment objectives, and that put your interests first. Representatives are subject to financial penalties if you cancel or change your Plan to reduce your investment within a specific period of time. We also seek to structure awards to ensure they do not influence recommendations. In this way, we seek to mitigate this conflict of interest in your best interest.

## **Outside Activities of Representatives**

Our representatives may carry on other business activities, hold officer, director or other positions of influence with entities unrelated to CEFI, or participate in community events or initiatives. For instance, many of our representatives are licenced to sell you insurance. Although we take no responsibility for our representative's actions with you that are derived from

these other activities, our representatives are required to tell us about their outside activity. We consider and permit all outside activities if they do not provide an unresolvable conflict with our representative's duties to you in distributing the Plans. Our representatives are required to tell you when they are not acting for CEFI, which will be in any circumstance other than distributing the Plans.

### **Referral Arrangements**

We may enter into arrangements where we pay a referral fee to another entity for referring you to us. As required by applicable securities laws, the terms of the referral arrangement will be set out in writing and you will be provided with disclosure of the arrangement. We undertake periodic reviews of our referral arrangements. You do not pay any additional charges and fees in connection with such referrals and are not obligated to purchase any product or service in connection with a referral.

Our referral arrangements are generally in the form of marketing and sales generation initiatives. We enter into agreements with certain entities that have access to information on families welcoming newborn children into their families. These entities, with or without additional terms relating to CEFI marketing undertaken through their publication, sell lists of contact information for such information or families who may be interested in providing for their new child's education through the purchase of a Plan.

You will receive full written disclosure of any referral arrangement before or at the time you purchase your Plan.

### **Personal Financial Dealings with Clients**

A conflict of interest can arise where a representative has personal financial dealings with you, including where they are

appointed as a trustee or granted a power of attorney and have control or authority over your financial affairs, they acquire or borrow assets from you, or you acquire or borrow assets from them. As these dealings could cause the representative to put their interests ahead of yours in taking any investment action, we have policies and procedures in place which generally prohibit personal financial dealings with clients who are not family members.

### **Gifts and Entertainment**

We and our representatives may receive offers of gifts and/or entertainment from business partners. We could be perceived to be financially motivated to put our interests ahead of your interests because of the gifts and entertainment. To address this conflict of interest, representatives are required to comply with our Code of Conduct, which requires representatives not to accept any gift or entertainment which is intended to improperly influence a business decision or which exceed a certain threshold. As well, representatives are obligated by applicable regulations and policy and procedures to make only suitable investments and recommendations.

The information in this document is intended to assist you in understanding and assessing material potential and actual conflicts of interest, including the nature of such conflicts, the potential impact on and risk that the conflict could pose to you and how we address the conflict to minimize its impact and risks to you and our other clients. Ultimately, we seek to resolve all material conflicts of interest in your best interests. This is an overview of a complex subject. If you ever have any questions or concerns, whether they involve conflicts of interest or other matters, you should never hesitate to say so and ask your representative for an explanation and/or further information.

