



**Pacific Capital Partners Limited**  
**FCA Firm Reference Number: 171200**

**Research Policy**  
**COBS 2.3B**

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## Document Control

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2.0	Final MiFID 2 version	3.1.2018	Amrusta Blignaut
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## Use and Payment of Research: Policy

### 1. Introduction

Pacific Capital Partners Limited (PCP) acts as the Investment Manager to the **Pacific Capital UCITS Funds Plc**, an Irish UCITS fund, which launched in March 2015. There are currently 5 sub-funds:

- Pacific Multi-Asset Accumulator – Defensive Fund
- Pacific Multi-Asset Accumulator – Conservative Fund
- Pacific Multi-Asset Accumulator – Core Fund
- Pacific Multi-Asset Accumulator – Plus Fund
- Pacific North of South EM All Cap Equity

MiFID 2 regulates the manner in which portfolio managers such as PCP are permitted to receive and pay for third-party research. In particular, MiFID 2 permits a portfolio manager to establish and agree with its clients a research charge which can be used to pay for external research and paid from a research payment account (RPA).

A firm using an RPA must establish a written policy that sets out how the firm will comply with the FCA Rules which govern the use and operation of the RPA. This document is PCP's written policy for the purposes of those FCA Rules. In accordance with the FCA Rules, PCP will provide a copy of this Research Policy to its clients.

### 2. Background – MiFID 2 inducement rules

- 2.1 Under the FCA Rules which implement MiFID 2, when PCP is providing portfolio management services to a client, the firm **must not** (a) accept and retain any fees, commission or monetary benefits; or (b) accept any non-monetary benefits (together with (a), 'inducements'), other than:
- a) Acceptable minor non-monetary benefits; or
  - b) Third-party research received and paid for in accordance with the arrangements described in this Policy.
- 2.2 The FCA Rules state that third-party research that is received by the firm **will not be** prohibited inducements if it is received in return for either of the following:
- a) Direct payments by PCP out of its own resources; or
  - b) Payments from a separate RPA controlled by PCP, provided that PCP meets the requirements in the FCA Rules relating to the operation of the account (as described further in section 6 of this Research Policy).
- 2.3 PCP's broader arrangements and policies in respect of the prohibition on receipt of inducements are set out in PCP's separate Gifts & Entertainment and Inducement Policies.

### 3. The definition of research under MiFID 2

- 3.1 Investment research under the Directive is defined as 'research material or services:
- Concerning one or several financial instruments or other assets; or
  - Concerning the issuers or potential issuers of financial instruments; or
  - Closely related to a specific industry or market such that it informs views of financial instruments, assets or issuers within that sector,



and which explicitly or implicitly recommends or suggests an investment strategy and provides a substantiated opinion as to the present or future value or price of such instruments or assets, or otherwise contains analysis and original insights and reaches conclusions based on new or existing information that could be used to inform an investment strategy or be capable of adding value to a firm's decisions on behalf of clients.'

- 3.2 The definition applies to investment research covering all asset classes (including fixed income/credit research and macro research in addition to equities research).
- 3.3 The key elements of the definition are that the material must:
- a) Explicitly or implicitly recommend or suggest an investment strategy; and
  - b) Provide a substantiated opinion as to the present/future value/price of instruments/assets or otherwise contain analysis and original thought and reach conclusions based on new or existing information.
- 3.4 These key elements eliminate several types of information from the definition. Specifically, the following items (Non-Research Materials) would not constitute research:
- a) News articles;
  - b) News commentary, commentary on flows or general market colour received from the sales and trading teams at a bank or broker;
  - c) Short term trade ideas/recommendations received from the sales and trading teams at a bank or broker that do not contain an in-depth, properly substantiated explanation of the rationale for that trade (e.g. Vodafone is looking cheap today);
  - d) A short form executive summary taken from a piece of investment research that has been cut and pasted into an email or other message, provided that the message does not reproduce, or contain a link to, the full in-depth analysis; and
  - e) Raw / unmanipulated market or other data.
- 3.5 Conversely, the following would constitute research:
- a) In-depth analysis of past, present and/or expected future macro-economic trends or trends within an industry sector or geographic area produced by an analyst or economist, plus any follow-up conversations about the research with the analyst/economist and/or being given access to the analyst or economist's model(s) and/or workings.
  - b) In-depth analysis relating to an issuer contained in a document consisting of multiple pages of text, where the analysis is based on a financial model built by the person / analyst who produced it (whether or not the document includes a buy/sell/hold recommendation and/or a price target), plus any follow-up conversations about the research with its producer and/or being given access to the producer's model(s) and/or workings.
- 3.6 The way material is labelled by its producer is not relevant in determining whether the material constitutes research. Consequently, if material is labelled with "this document is not research" or "this document is marketing material", that does not necessarily mean that the material falls outside of the definition of research.
- 3.7 Examples of goods or services that the FCA does not regard as research which could not be paid for from RPAs include:
- a) Order and execution management systems;
  - b) Post-trade analytics;
  - c) Membership fees to professional associations;
  - d) Services relating to valuation or performance measurement of portfolios;
  - e) Seminar fees;



- f) Corporate access;
- g) Price feeds or historical price data that have not been analysed or manipulated in order to present the firm with meaningful conclusions;
- h) Subscriptions for publications; travel, accommodation or entertainment costs;
- i) Direct money payments; and
- j) Administration of a research payment account.

3.8 All the above services received by PCP will be paid by the firm from its own resources.

3.9 The above list includes '**corporate access services**'. Corporate access services include field trips, conferences and individual meetings that involve one or more corporate issuers and which are facilitated for PCP by a bank or broker. Such services are non-monetary benefits and, subject to the exception described in 3.10, are not regarded as 'minor' in nature. PCP is, therefore, required to pay the bank or broker for such services at an appropriate rate out of PCP's own resources. Alternatively, PCP can approach a corporate issuer directly to facilitate an individual meeting with that issuer, in which case PCP does not need to make a payment.

3.10 As an exception to the above requirement, where a corporate issuer's investor relations office (or its 'house broker' if the service is paid for by the issuer) organises investor 'road shows' to support a capital raising event and the event is freely and publicly open to analysts from investment firms and other investors, it is capable of qualifying as an acceptable minor non-monetary benefit. PCP employees are permitted to attend such events without PCP paying a fee to attend.

#### 4. What constitutes 'minor' non-monetary benefits

4.1 The prohibition on the receipt of non-monetary benefits by MiFID firms that provide portfolio management services is subject to an exception that, provided certain conditions are met, permits such firms to receive non-monetary benefits that are 'minor' in nature.

4.2 For these purposes, there is an exhaustive list of benefits that potentially constitute 'minor' non-monetary benefits.

4.3 In terms of written materials, the list of potential 'minor' non-monetary benefits includes the following:

(A) **Generic items:** Information or documentation relating to a financial instrument or an investment service, that is generic in nature or personalised to reflect the circumstances of an individual client. This category includes short term market commentary on the latest economic statistics or company results or information on upcoming releases or events which are provided by a third-party and which: (1) contain only a brief unsubstantiated summary of the third-party's own opinion on the information; and (2) do not include any substantive analysis (e.g. where the third-party simply reiterates a view based on an existing recommendation or existing substantive research). It, therefore, includes the types of Non-Research Materials that are listed in 3.4 (although it would not include data feeds or raw market data). This category also includes materials that falls within the definition of research but which is made available to the public (for example by being posted to a website) on a free-of-charge basis.

(B) **Widely-available, issuer sponsored research:** Written material from a research producer that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by that issuer, or where the research producer is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any firms wishing to receive it, or to the general public. This category includes most types of research produced by a ratings agency.



- (C) **Widely available research produced in connection with a particular issuance of securities:** Research relating to an issuance of securities by an issuer, which is:
- a. Produced prior to the issuance being completed by a person that is providing underwriting or placing services to the issuer in relation to that issue; and
  - b. Made available to prospective investors in the issue.
- (D) **Free trials:** Research that is received so that PCP may evaluate the research provider's research service, provided that:
- a. It is received during a trial period that lasts no longer than 3 months;
  - b. No monetary or non-monetary consideration is due (whether during the trial period, before or after) to the research provider for providing the research during the trial period;
  - c. The trial period is not commenced with the research provider within 12 months from the termination of an arrangement for the provision of research (including any previous trial period) with the research provider; and
  - d. PCP makes and retains a record of the dates of any trial period accepted under this rule, as well as a record of how the above conditions have been satisfied for each such trial period.
- 4.4 In order for an item to constitute an acceptable minor non-monetary benefit (and therefore, be received by PCP without paying for it), the following conditions must also be satisfied in relation to that item:
- i. The fact that PCP may receive non-monetary benefits of that type must have been disclosed (on a generic basis) to PCP's portfolio management clients;
  - ii. The receipt of the non-monetary benefit must be **capable of enhancing the service** that PCP provides to clients;
  - iii. The non-monetary benefit must be of a scale and nature that it could not be judged to impair PPC's compliance with its duty to act honestly, professionally and in accordance with the best interests of its clients; and
  - iv. The non-monetary benefit must be reasonable, proportionate and of a scale that is unlikely to influence PCP's behaviour in any way that is detrimental to the interests of the relevant client.
- 4.5 Where the non-monetary benefit involves its producer/provider allocating valuable resources to PCP, the benefit is unlikely to be capable of being categorised as 'minor' and, therefore, should not be accepted by PCP without paying for it.
- 4.6 In relation to condition 4.4 (ii), the following conditions must (where relevant) be satisfied, for the relevant non-monetary benefit to be treated as 'enhancing' the service provided by PCP:
- a) The non-monetary benefit must be justified by the provision of an additional or higher level of service to the client and be proportional to the level of inducements received;
  - b) The non-monetary benefit must not directly benefit PCP, its shareholders or employees without tangible benefit to the client;
  - c) The non-monetary benefit must be justified by the provision of an ongoing benefit to the client in relation to an ongoing inducement; and
  - d) The provision of the service by PCP to its client is not biased or distorted because of the non-monetary benefit.
- 4.7 The firm has an obligation to reject any research received but not paid for, unless deemed a non-monetary benefit.
- 4.8 If you have any questions about whether an item that you have received should be categorised as 'minor' and, if so, whether it would satisfy the conditions set out in section 4, please speak to the Compliance Department.



## **5. Payment of research:**

- 5.1 PCP has decided that all research that the firm receives will be paid using an RPA (other than research that constitutes an acceptable minor non-monetary benefit).
- 5.2 The firm will generally seek to put in place RPAs in relation to payments for research relating to equities and equity-related instruments, fixed income instruments and research containing macro-economics analysis.
- 5.3 The firm believes that (where agreed) the use of RPAs will benefit clients for the following reasons:
- i. PCP will be able to purchase third party research which is relevant to the particular investment strategy relevant for a particular client's portfolio;
  - ii. Such third-party research will assist PCP in making portfolio management decisions in respect of its clients, and through using research PCP accordingly aims to provide a higher quality of management service.
- 5.4 Where PCP arranges to pay for research using an RPA, the firm will seek to allocate research costs fairly to the various clients' portfolios. PCP's general approach to allocating costs will be:
- i. Each investment team will set their budget and will allocate costs according to the expected relevance of the research to a particular strategy or the level of use by the investment team;
  - ii. Where a single investment team is responsible for the portfolio management of more than one client with similar investment strategies, the allocation of costs will be grouped by strategy and pro-rated according to AUM.
- 5.5 Also see 6.5 for further details on PCP's policy in relation to setting a research budget for multiple clients.

## **6. Research charges and research budgets**

- 6.1 This section of the Research Policy describes the conditions with which the firm must comply when implementing and operating an RPA, and in particular the research charges agreed with clients, how this interacts with PCP's research budget, and the quality assessment criteria for research.

### ***Research charges:***

- 6.2 Each RPA is funded by a specific research charge agreed with, and payable by, PCP's clients, as an amount due to PCP (the 'research charge'). PCP will ensure that the total amount of research charges collected from all its clients does not exceed the research budget for the relevant period. The research charge will be collected using the Accounting Method.
- 6.3 The Accounting Method relies on PCP calculating a daily proportionate accrual of the annual research charge agreed with its clients. The accrued charge is then physically withdrawn from each fund on a quarterly basis (or as required) to coincide with payments made to the third-party research providers. The research charge is sent to one or more RPA administrators who will manage all payments for research on the funds' behalf. Every research provider will therefore receive a cheque for their research service totally independently of their trading activity.



### **Research budget:**

- 6.4 The research charge is based on a research budget set by PCP for the purpose of establishing the amount needed by PCP for third-party research in respect of investment services rendered to its clients ('research budget'). The firm will on a quarterly basis separately set and assess a research budget as an internal administrative measure.
- 6.5 In respect of the research budget, PCP's policy is that:
- The budgeting process is carried out by each investment team in conjunction with the COO with oversight from compliance.
  - Budgeting for research initially takes place at the beginning of the relevant quarterly research period at the outset of the research procurement process, to determine PCP's anticipated needs to levy the research charge, in the best interest of clients. PCP's budget is an *ex-ante* estimate of forecast expenditure for research costs that can be charged to portfolios with similar strategies under management. The firm seeks to ensure that the budget is sufficiently granular to be able to be pre-apportioned by portfolio or client.
  - The research budget is not linked to the volume or value of transactions executed by PCP on behalf of its clients. Instead, the research budget is based on the firm's independent / unbundled assessment of its research needs, as distinct from any trade execution activities.
  - The firm does not produce internally-generated research. The research budget is used solely to purchase third-party research.
  - In setting a research budget, and considering the obligation to fairly allocate costs, PCP will generally set a budget for a group of clients who would benefit from the same research. This could be for example because those clients have portfolios that are managed according to similar investment strategies, or if client portfolios have sufficiently similar mandates and investment objectives such that investment decisions relating to those portfolios are informed by the same research inputs.
  - The firm won't set a budget for a group of client portfolios or accounts that don't share sufficiently similar investment objectives and research needs. For example, if portfolios have material differences in the types of financial instruments and/or geographic regions or market sectors they can invest or are invested in, such that their research needs and the potential costs of acquiring those inputs are different, they won't be subject to the same research budget.
  - As at the date of this policy, PCP operates a budgeting process for each respective client in a single RPA arrangement covering all these clients.
- 6.6 For 2018, an annual research budget has been set for the UCITS umbrella at \$169,000.

### **Quality assessment:**

- 6.7 When entering into a relationship with a research provider, the firm's policy is generally to set measurable *ex ante* criteria as to how it will value the types, level and quality of service. PCP intends that this will form a framework with each provider on the level of payment expected for the anticipated provision of services. At the end of the period, based on actual services received, PCP may adjust the payment made to the research firm in a proportionate and predictable manner, based on those criteria.
- 6.8 As part of that process (both *ex post* and on an ongoing basis) PCP will assess the quality of the research received, based on robust quality criteria, and the ability of that research to



contribute to better investment decisions for the clients who pay the research charge. These quality criteria include:

- The extent to which the research provides new and detailed analysis to help managers from an investment view;
- The extent to which research provides meaningful recommendations based on substantiated opinion which prove to be correct;
- The extent to which research covers the analysis of stocks that are otherwise under researched;
- For portfolios that have sector bias, research that is specific to that sector or sub-sector; and
- The extent to which research is relevant to the client's investment objective and/or investment outcome.

6.9 As noted above, PCP intends to negotiate with research providers to set *ex ante* expectations of payment levels (which may be based on the relevant service provider's published pricing for such services, including where the service provider operates a waterfall subscription model for access to its research), and then on an *ex post* basis to confirm that it has applied appropriate controls in determining actual payments to providers for services received. PCP aims by clearly linking payments to inputs and servicesz to mitigate conflicts of interest risk, that research payments to providers could be perceived to be rewarding other non-research benefits or that other business flows are being used to reward the research provider for its research, and ensure payments are in the best interest of the firm's clients.

6.10 PCP will use a third-party to assist it with ongoing assessments of the quality of research received from research providers. PCP's payments for research will be made through the third-party's system and will be based on an assessment of the value of research services received as against the above criteria, and **will not** take into account any other services provided by a research provider (including, in particular, brokerage services).

### **Surplus in the RPA:**

- 6.11 If there is a surplus in an RPA at the end of a period, PCP has a process either to;
- a) rebate those funds to relevant clients; or
  - b) offset the surplus against the research budget and charge for relevant clients calculated for the following period.
- 6.12 In general, the firm's policy will be to offset the surplus against the next budget, although if the surplus is substantial the firm may choose to rebate it to relevant clients. In calculating any rebate or offset, the firm will maintain a fair allocation of costs between clients.

## **7. Agreements with clients and provision of information to clients**

- 7.1 PCP will agree with all its relevant clients:
- a) PCP's research charge.
  - b) The frequency with which the specific research charge will be deducted from the resources of the client during the budget period (i.e. as a separate charge).
- 7.2 Each client's agreement will generally be set out in PCP's investment management agreement with that client.
- 7.3 The firm will also separately provide the following information to its clients:



- **Before the provision of services:** PCP will notify all relevant clients about the budgeted amount for research and the amount of the estimated research charge for each of them;
- **On an ongoing basis:** PCP will provide all relevant clients with annual information on the total costs that each of them has incurred for third-party research.

7.4 The firm won't increase its research budget unless it has provided, in advance, clear information to relevant clients about such intended increases. The firm will provide information on increases in the research budget to relevant clients in good time before such increases are to take effect.

7.5 In addition, the firm will provide to its clients, on request, a summary of:

- The research providers paid from the client's RPA;
- The total amount that such providers were paid over the defined period;
- The benefits and services received by the firm; and
- How the total amount spent from the RPA compares to the research budget set by PCP for that period, noting any rebate or carry-over if residual funds remain in the RPA.

7.6 The firm will also provide the information of all RPA's to the FCA, on request.

## 8. Governance and oversight of RPAs

8.1 PCP is cognisant that an RPA is funded with money which belongs to a client and, consequently, seeks to impose on itself high standards of governance and oversight when it operates the RPA. PCP has implemented, as part of its periodic Compliance Monitoring Programme the following ongoing checks:

- That the research budget is managed solely by PCP;
- That the research budget is based on PCP's reasonable assessment of the need for third-party research; and
- That the allocation of the research budget to purchase third-party research is subject to appropriate controls and senior management oversight to ensure it is managed and used in the best interests of PCP's clients, including:
  - An assessment based on sample testing as to whether research satisfies the quality criteria set out in 6.8 and is capable of being deemed substantive in nature;
  - Where applicable, an assessment as to the fair allocation of costs between clients;
  - An assessment as to whether any conflicts of interests have been identified between PCP and its clients and any third-party research provider;
  - An assessment as to the reasonable steps taken to ensure that research is not being received beyond that which has been agreed between PCP's clients and any third-party research provider.

8.2 In addition, the Research Committee controls include verification of:

- Payments made to research providers; and
- How the amounts paid were determined with reference to the quality criteria described under 6.8 and this policy more generally.

8.3 PAM's executive committee with oversight from the PCP Board has overall control of, and responsibility for, the overall spending for research, the collection of client research charges and the determination of payments. Amongst other things, this oversight is designed to ensure that research charges are not (a) linked to volume or value of services or benefits that are not research; or (2) used to cover anything other than research, such as charges for execution.



## **9. Third-party administration of the RPA**

9.1 Under the FCA Rules, PCP is permitted to choose to delegate the administration of the RPA to a third party, provided that the arrangement facilitates payments to research providers, in PCP's name, for the purchase of third-party research, without any undue delay in accordance with the firm's instructions.

9.2 In order that PCP retains sufficient control of, and is responsible for, the RPA when relying on a third-party, the firm will ensure that its agreement with the third-party contains provisions with the following effect:

- PCP retains sole, full and absolute discretion over the use of the account and the making of payments or rebates;
- RPA monies are ring-fenced and separately identifiable from the assets of the third-party,
- The third-party (or its creditors on insolvency have) will have no right of access or recourse to the RPA for its own benefit (for example to offset other fees owed by PCP, or for use as collateral).

## **10. Best execution**

10.1 PCP won't enter into any arrangements relating to the receipt of, and payment for, third party research, that could compromise its ability to meet its best execution obligations as applicable under the FCA Rules.

10.2 PCP has a separate Order Execution Policy which sets out the steps that it takes to ensure best execution for its clients. In accordance with the requirements on unbundling, that policy does not include research received (whether in volume or quantity) as a factor which can be taken into account when deciding how to execute an order.



## Appendix A – Research provider review process

The firm will undertake a full research provider review process annually and this concludes with an annual meeting of the board of directors.

The COO will conduct interviews with the portfolio managers and analysts to rank the firm's research providers. This will require the individuals to assess each research provider they interact with based on set criteria. This will include assessing:

- Analyst meetings/calls
- Written research
- Bespoke research work
- Depth of relevant knowledge

The results will then be fed back to the board to enable it to evaluate the research that is being consumed by the firm. Furthermore, the COO will determine if existing research consumption levels are in line with the existing research budget.

Each of the firm's portfolio managers and analysts will be asked for a rating - for each research service provider - for each of the categories listed below. This translates to an overall score for each research service provider.

### The four categories

The research providers are reviewed by the portfolio managers and/or analysts according to four main categories, and then those categories are weighted according to each individual portfolio managers and/or analyst's preferences. The four categories and their definitions are:

**Reading:** These are predominately e-mails and pdf documents sent out by the research provider and then read in their own time by the portfolio manager. They can take the form of daily commentaries and ideas, right through to research on particular companies and macro pieces.

**Phone / Instant Messages (IM):** These are sales calls and IMs that take place between the research service provider and the portfolio manager on either a daily or an ad hoc basis. They are a valuable source of information and idea generation between the portfolio manager and their sales contact.

**Analysts:** This is a review of the analytical output that a research service provider produces, and may include written pieces, spreadsheets, and/or one on one calls/meetings.

**Depth of knowledge:** A general 'feel' category that enables portfolio managers to provide some feedback on the depth of knowledge – or lack of – with their research contacts.



## **Appendix B – Approved research providers**

### **Adding a new research provider**

Should a portfolio manager (or any other member of staff) wish to appoint a new research service provider to the approved service provider list (see below), then the following process must be followed:

- Portfolio manager to provide business case/rationale for appointing research provider;
- Business case/rationale must be approved and signed off by the Compliance Officer and COO.

It should be borne in mind that the FCA has confirmed that trial periods for research are permissible non-monetary benefits, provided that the trial period is limited to no more than three months. The firm will not accept a new trial with the same service provider within a 12-month period from the expiration of the previous trial period or research agreement.

### **Approved research provider list**

The firm maintains a list of approved research providers.