

# RESEARCH AND INDUCEMENTS POLICY

## Overview

The MiFID II Directive 2014/65 deals with the payment to, and/or receipt from, a third party of inducements in relation to the provision of services to clients of investment firms. Generally, MiFID II permits investment firms to accept inducements in circumstances where certain requirements are satisfied. However, it prohibits inducements paid to, and/or received by, an investment firm carrying out portfolio management: firms such as Delmore Asset Management (Delmore) are only permitted to pay or receive minor non-monetary benefits (“NMBs”) that fulfil certain requirements.

Commission Delegated Directive 2017/593 (the “Delegated Directive”) contains more detailed rules on inducements, including specific requirements governing inducements in relation to research. The European Securities and Markets Authority (ESMA) also deals with inducements in its Q&A on MiFID II and MiFIR Investor Protection Topics.

## Research

MiFID II Regulation emphasises the need for greater clarity and fairness to clients. As part of this philosophy the intention is to remove all potential conflicts which may exist between provider in client. In this instance, Research falls under such an heading. The intention is to remove any implicit connection between the provision of research and the routing of trades via the research provider. If the provision of research is to continue, it will need to be paid for by the recipient, thereby acting as a disincentive for any conflict of interest to prevail.

In order to avoid any conflict, Delmore Asset Management has taken the decision *not to pay for any research*. Further, its’ policy is to decline any offers of “cost free” research, except where such research is of a very general, non-specific kind, freely available to market and non-market persons. (See also “Research Inducements” below).

## Inducements

According to Article 24(9) of MiFID II, Delmore Asset Management Ltd (Delmore) is only permitted to pay, or be paid, an inducement (namely, a fee, commission or non-monetary benefit) for the provision of an investment service or ancillary service, where the relevant payment:

- is designed to enhance the quality of the relevant service to our clients
- does not impair compliance with Delmore’s duty to act honestly, fairly and professionally in accordance with the best interests of our clients;

Delmore will disclose to our clients the existence, nature and amount of the inducement or, where the amount cannot be ascertained, its method of calculation. This disclosure will be made in a manner that is comprehensive, accurate and understandable to our clients and must be made prior to the provision of the relevant investment/ancillary service. Where applicable, Delmore will inform our clients on mechanisms for transferring to our clients an inducement received in relation to the provision of an investment/ancillary service.

Payments or benefits received or provided by Delmore which enable or are necessary for the provision of investment services and which are inherently incapable of giving rise to conflicts with Delmore's duties to act honestly, fairly and professionally in accordance with our clients' best interests are not considered to be inducements. This non-exhaustive list includes custody costs, settlement and exchange fees, regulatory levies and legal fees.

According to the Delegated Directive, an inducement should not be accepted if it results in the provision of the relevant services to the client being biased or distorted. The Delegated Directive also provides further information as to when an inducement will be designed to enhance the quality of the relevant service to our clients: specifically, such an inducement must meet three conditions on an ongoing basis, namely, it must be justified by the provision of an additional or higher-level service to the relevant client, which is proportionate to the level of inducements received – the Delegated Directive provides examples of such services; not directly benefit Delmore or our employees without tangible benefit to the relevant client; and be justified by the provision of an on-going benefit to the relevant client in relation to an on-going inducement.

Delmore will hold evidence that any inducement that it pays or receives is designed to enhance the quality of the relevant service to the client.

Regarding disclosure, NMBs (Non-Monetary Benefits) may be described in a generic way, while other non-monetary benefits must be priced and disclosed separately. Where an investment firm discloses the method of calculating the amount of a payment or benefit in advance of providing the relevant service in its prior disclosure, then it must disclose the exact amount of the payment or benefit on an ex post facto basis.

Delmore will inform our clients on an individual basis about the actual amount of payments or benefits received or paid at least once a year, provided that (on-going) inducements are received by the investment firm in relation to the investment services provided to the relevant clients.

## **Portfolio Management**

MiFID II prohibits an EU investment firm which carries out portfolio management from accepting and retaining third party inducements (fees, commissions or monetary and non-monetary benefits) in relation to the provision of services to clients. However, such an investment firm may accept NMBs that are:

- capable of enhancing the quality of service provided to a client; and
- of a scale and nature such that they could not be judged to impair compliance with the investment firm's duty to act in the best interests of the client.

***Delmore will disclose any relevant Portfolio Management NMB.***

## **Minor non-monetary benefits**

According to the Delegated Directive, the following benefits qualify as acceptable NMBs:

- information or documentation relating to a financial instrument or an investment service which is either generic in nature or personalised to reflect the circumstances of an individual client

- written material from a third party that is commissioned or paid for by a corporate issuer (or potential issuer) to promote a new issuance by the company, or contractually engaged and paid by the issuer to produce such material on an on-going basis, provided the relationship is clearly disclosed in the material and that the material is simultaneously made available to any investment firm wishing to receive it or to the Public in general,
- participation in conferences, seminars and other training events on the benefits and features of a specific financial instrument or an investment service
- hospitality of a reasonable de minimis value, such as food and drink during a business meeting or a conference, seminar or the training events mentioned above
- certain other NMBs which a member state deems capable of enhancing the quality of service provided to a client and are of a scale and nature that is unlikely to impair compliance with an investment firm's duty to act in the client's best interests.

An NMB, in order to be acceptable, must be reasonable and proportionate and of such a scale that it is unlikely to influence the investment firm's behaviour in any way that is detrimental to the relevant client's interests. In addition an NMB must be disclosed prior to the provision of the relevant investment service or ancillary service.

The Delegated Directive imposes additional requirements on an investment firm in relation to the transfer of a third-party inducement paid in respect of the provision of independent advice or portfolio management to a client.

### **Research Inducements**

According to the Delegated Directive, research provided by a third party to an investment firm may be considered as an inducement under MiFID II.

Research will not be an inducement, if the firm either directly pays for it out of its own resources, or from a separate research payment account ("RPA"), which is controlled by the investment firm and which meets a number of conditions.

In particular, if an RPA is being used, the RPA must be funded by a specific research charge to the client. In addition, as part of establishing an RPA, the investment firm must set up and regularly assess a research budget and then agree with the client:

- the research charge as budgeted; and
- the frequency with which the specific research charge will be deducted from the clients' resources over the year.

Delmore must regularly assess the quality of the research purchased based on robust quality criteria and its ability to contribute to enhanced investment decisions. To justify this fully, the investment firm must establish all necessary elements in a written policy and provide this to its clients.

When an investment firm makes use of the RPA it must provide its clients with certain information both before the provision of the investment service and annually. Moreover, where the competent authority or a client so requests, the investment firm must provide specified information, including a summary of the providers paid from the RPA, the total amount paid over a defined period and the benefits and services received by the investment firm.

Significantly, the Delegated Directive suggests that an investment firm which funds research through an RPA may collect the research charge alongside a transaction commission, provided that the separate costs of the two are clearly distinguished and the payment is not linked to the value/volume of transactions.