

River and Mercantile Asset Management LLP

Investment Research Policy

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Investment Research Policy updates

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1. Summary

The European Union's revisions to the Markets in Financial Instruments Directive and the introduction of a new Regulation and supporting legislation (MiFID II) come into force on 3 January 2018. MiFID II affects many aspects of business for River and Mercantile Asset Management LLP (RAMAM), including trading, trade reporting and product governance. One area that MiFID II affects is the receipt of research by RAMAM from brokers. The new rules for research aim to reduce inducement risks, improve transparency and accountability over costs passed to investors and ensure a priced research market that enhances competition.

This policy explains how and why the PVT Team at RAMAM use external research and how this will work under the new rules.

2. PVT Team

The PVT Team invests predominantly in the equity securities of individual companies. Our investment philosophy identifies the three factors that drive share prices higher over the medium term, namely Potential, Valuation and Timing. We believe that companies have life cycles: times of success, times of failure and then change. As a result, we categorise the potential investment universe into growth, quality, recovery and asset-backed opportunities. Our proprietary screening tool, Money Penny, systematically scores and ranks all companies on PVT within each of the four categories both globally and in the UK. We verify the investment ideas with fundamental research, including external research, and the portfolio managers then construct portfolios within the mandates or investment guidelines of the portfolio and reflecting strategic and tactical positioning.

External research benefits client portfolios because:

- The use of external research is a key component of our investment process. We utilise external research in the verification of the ranking of stocks by Money Penny to ensure Money Penny accurately reflects investment reality. We do not use external research as our principal source of investment ideas, however it is a critical component of our investment proposition that has delivered high levels of alpha across all our portfolios since inception.
- It can help verify that a stock which does not score well on Money Penny is actually a strong investment idea in accordance with our PVT Investment Philosophy. For example, if a company has recently undergone a significant merger, acquisition or disposal of a business, the score on Money Penny, which is based partly on reported accounts, may not reflect the current state of affairs.
- Investment ideas generally work when there is a difference between our expectations for a company and the expectations of the market for that company. External research helps us understand the drivers of the market's expectations. This is particularly valuable when we believe the market's expectations for a stock are wrong. In many cases being able to scrutinise the sell side analysts' financial model on a stock helps the investment team understand the source of valuation anomaly.
- It allows us to access a network of specialists around the world, each of whom covers a small number of companies in great depth, typically 8 to 12 companies per analyst. Whilst portfolio managers carry out research and we employ research analysts in-house, it is not economic for us to try to replicate the network of global research analysts accessible through external research. We expect that in 2018 we will have access to research from 6 or 7 internal research analysts but over 2,000 external research analysts. Part of the internal research role is the analysis of external research.
- Macro-economic research can be a useful source of information in portfolio construction and, in the case of global portfolios, currency hedging.

3. Research and Inducement Risk

The majority of the external research received by the PVT Team is produced by brokers, i.e. firms who also offer execution services. In order to ensure that RAMAM obtains the best execution for our clients, we need to avoid the risk of inducement to trade with brokers offering “free” or subsidised non-execution services. The revised FCA rules from 3 Jan 2018, implementing MiFID II, are designed to ensure that our execution business is not improperly directed to brokers that provide other inducements for the use of their services. They do this by creating a general prohibition on receiving non-execution services from brokers we use for execution, with limited exemptions. One set of exemptions is known as “Acceptable Minor Non-Monetary Benefits” and there is also an exemption for research subject to certain rules.

To decide whether we can receive a non-execution service from a broker, we need to consider two key questions:

1. Is the service a research service as defined by MiFID II? Essentially, is it substantive research that is capable of adding value to our decisions on behalf of our clients? And,
2. Is it an Acceptable Minor Non-Monetary Benefit?

Corporate sponsored research and new issue research may qualify under both headings, so we follow a three-step process:

1. Is it an Acceptable Minor Non-Monetary Benefit (Section 3.1)? If so, we can receive it for free but need to record such items.
2. Is it considered to be research, other than research allowed as an Acceptable Minor Non-Monetary Benefit? If so, we can receive it so long as we pay for it following the process described in Section 4.
3. RAMAM will pay for any other non-execution service received from a broker.

We will decide which brokers, amongst those with whom we have an existing relationship, we want to provide us with a research service, as described in later sections. The other brokers with whom we have an existing relationship we will ask to stop sending us research. We will also have a process to ensure that corporate sponsored research and new issue research, which may properly be received from brokers who we have not selected as research providers and brokers with whom we do not have an existing relationship, is properly managed. More generally, if we decide we cannot receive the non-execution service then we will instruct the broker to stop providing it.

3.1. Research that may be an Acceptable Minor Non-Monetary Benefit

In certain limited circumstances, items from brokers may not present an inducement risk and so could potentially be received by RAMAM free of charge. These circumstances include:

1. Corporate sponsored research. Written material that is paid for by the issuer 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. For example, smaller companies listed in the UK traditionally have a house broker who is paid a retainer by the company to write research reports and organise roadshows to investors after results. This research is potentially exempt.
2. New issue research. Research related to a new issue, provided to us before the new issue is complete by a firm underwriting or placing the new issue and made available to prospective investors in the new issue.
3. Generic information. For example, short term market commentary on the latest economic statistics or company results or information on upcoming releases or events. However, irrespective of how items are labelled or their provenance within a provider firm, the key in each case is that, in order to be permitted

as an Acceptable Minor Non-Monetary Benefit, they must not include substantive analysis, involve the allocation of valuable resource by the provider, or have a material value to RAMAM.

4. Research service trials. If no longer than 3 months long and free of charge.

In all these cases, in order to be Acceptable Minor Non-Monetary Benefits, they must be reasonable, proportionate and of a scale that is unlikely to influence RAMAM's behaviour in any way that is detrimental to the interests of our clients.

Such items need to be recorded in the inducements log.

Detailed criteria are in Appendix 2.

3.2. Non-research items

The research budget will only be used to pay for research as defined in section 4. Items that do not count either as research or as acceptable minor non-monetary benefits will be paid for by RAMAM separately. These include:

- Corporate access services
- Bulk data feeds including the bulk data used in MoneyPenny
- Research terminals such as Bloomberg or FactSet
- Research budget management software
- Research Payment Account administration services

3.3. Unauthorised Research

We will not accept research from brokers unless either we consider it to be an Acceptable Minor Non-Monetary Benefit meeting the criteria in section 3.1 or we are paying for it as described in section 4. We will instruct brokers sending other research to stop sending it. We will also instruct research aggregators, including Bloomberg and FactSet, to disable our access to such research. Any staff member receiving research that is not authorised must notify the Director of Research (WL) who will then contact the research provider. The Director of Research will log unauthorised research received and report this to the PVT Research Budget Committee. The Compliance Monitoring Function will periodically monitor communications from brokers to RAMAM on a risk assessed basis.

4. Research and Research assessment

4.1. Definition of External Research

External Research includes research material or services about assets, companies, industries or markets that that is capable of adding value to RAMAM's decisions on behalf of clients. The detailed criteria are given in Appendix 2.

Typical items include:

- written research reports on individual companies, or on industries, markets or countries; or,
- financial models of individual companies, industries or markets, either associated with written reports, typically in spreadsheets or as part of a research service; or,
- conversations with the analysts who write the reports and build the models.

4.2. Research assessment process

The PVT Team has assessed the quality of research from all providers semi-annually since we launched the business, with increasing rigour. Starting in the fourth quarter of 2017, this will include each member of the team assessing the number of research reports and analyst interactions they have had with every provider, using tools from research aggregators, such as Bloomberg and FactSet and research interaction tracking software, and completing a standard research quality assessment form for every provider that records the type, level and quality of the services received against the ex-ante criteria below. These assessments will then be collated and used by the PVT Research Budget Committee. An example standard assessment form is at Annex A.

4.3. Research quality assessment criteria

We assess the quality of research services in the light of our PVT Philosophy and Process by asking: Does the research service, whether through written research reports, analyst models, sales commentary or analyst contact, provide one or more of the following items?

- Validation of the scores assigned by MoneyPenny or evidence that a stock with a low score on MoneyPenny actually meets the PVT Team Investment Philosophy criteria?
- Insight into the drivers of shareholder returns ("Potential" in PVT) such as scope for either of revenue growth or operating margins to exceed consensus estimates
- Insight into the absolute or relative valuation of the stock ("Valuation")
- Insight into the likely short-term trend of estimates or the share price ("Timing")
- Highlights stocks that meet our PVT Philosophy (external idea generation)
- Insight into sector or regional trends that are likely to impact the stock
- Insight into new countries and themes not yet covered by the team
- Insight into macro-economic variables such as inflation expectations, economic growth, interest rate curves or currencies

As a result of this process we manage the provision of research we receive from the market and have always looked to manage down the cost of external research in the best interests of our clients.

5. Research Budget, Research Charges and Research Payment Account

The RAMAM PVT Team will pay for external research using direct payments from RAMAM in accordance with the FCA Handbook COBS 2.3B.

5.1. Research Budget Summary

RAMAM will set a research budget annually but monitor it on an ongoing basis and at least quarterly.

We will formally assess the quality of research purchased from every provider semi-annually based on the criteria in section 4.3 above and its ability to contribute to better investment decisions for our clients. We will monitor all providers on an ongoing basis and if there are significant changes in the quality of service from any provider, we will engage with the provider and adjust the research budget if necessary.

The research budget is not to be used to fund research generated internally or for the management and development of MoneyPenny.

5.2. Research budget governance

The PVT Research Budget Committee will consist of the CIO PVT Equities, the PVT Partners and the PVT Director of Research. The research budgets will be approved by the CIO PVT Equities. There will be a semi-annual Research Budget meeting in which the Committee will formally assess the quality of the research received from providers in the current budget period and set the budget for the following period. The process is described in section 5.3.

The PVT Research Budget Committee will set research budgets for groups of clients who would benefit from the same research. As we are a single investment team who all follow the PVT Investment Philosophy and Process, we have three Research Budgets:

- A Global Research Budget for clients of global PVT strategies.
- A UK ex Micro Cap Budget for clients of UK PVT strategies.
- A UK Micro Cap strategy for the River and Mercantile Micro Cap Investment Trust.

The current set of research budgets and the strategies they include are shown in Appendix 1. This may be amended by the PVT Research Budget Committee from time to time.

5.3. Research budget process

The PVT Research Budget Committee will hold a semi-annual Research Budget meeting. Additional meetings will be held if there are significant changes in the quality of research from any provider.

There are four main inputs to the Committee's research budget deliberations:

1. The research quality assessments of each provider by each team member,
2. Quantitative data on research interactions,
3. A prioritisation of providers by each team member, and
4. Pricing indications from research providers

The PVT Team members will complete the semi-annual research quality assessment described in Section 4.2. The Committee will assess the quality of research purchased from every provider based on the criteria in section 4.3 above and its ability to contribute to better investment decisions for the clients, using the quality assessments from team members.

The Committee will review quantitative data on research interactions, provided by the Director of Research. This may include report readership data, sourced from research aggregators, providers or in-house tracking data, and analyst interaction data, sourced from third-party interaction tracking software.

The Committee will set research budgets for the upcoming budget period, based on the research quality assessment, consumption data and pricing indications from provider. The Committee will then negotiate prices and service levels with research providers. We will seek to achieve the best prices noting that the prices for research services cannot be linked to the volume or value of non-research services or benefits received from that provider or subsidised by non-research services bought from that provider. The prices we achieve will depend on prevailing pricing trends in the market for external research and the relative bargaining power of RAMAM and each provider. The research budgets will generally contain a small buffer to cover changes in research requirements during the period. The research budgets will be approved by the CIO Equities and the RAMAM ExCo.

The Committee will also assess the quality of research purchased from every provider in the current period based on the criteria in section 4.3 above and its ability to contribute to better investment decisions for the clients. This will be done by comparing the ex-ante budget for the current period with the research quality assessment forms completed by the team. Where appropriate, the Committee will alter the level of payment to that provider for the current budget period. If there has been a significant reduction in the quality of research from a provider during the period, the Committee will already have reduced the payments to that provider at an off-cycle meeting. Research payments may include a variable element, for example based on hours of sell-side analyst time consumed which has been estimated in advance. The Committee will authorise payments based on actual consumption. The Committee may also allocate money from the buffer or other unspent budget to new providers or to higher levels of service from existing providers, subject to a quality assessment.

RAMAM will maintain a clear audit trail of payments made to research providers. This will be managed and overseen by the Group's Finance department and reviewed by the PVT Research Budget Committee on a quarterly basis.

Appendix 1: List of Research Budgets

- Global external research budget. This includes all funds or segregated accounts following the global strategies:
 -) Global High Alpha
 -) World Recovery
 -) Concentrated Recovery
 -) Global Smaller Companies
 -) International (Global ex US) Smaller Companies
 -) International (Global ex US) High Alpha.
- UK ex MicroCap external research budget. This includes all funds or segregated accounts following the UK strategies:
 -) UK High Alpha
 -) UK Smaller Companies
 -) UK Income
 -) UK Recovery
 -) UK Dynamic
 -) UK Core
- UK MicroCap external research budget. This is just the River and Mercantile MicroCap Investment Trust.

Appendix 2: Research classification criteria

Research

For the purposes of this policy on external research, the FCA defines research as:

Research material or services:

1. Concerning one or several financial instruments or other assets; or
2. Concerning the issuers or potential issuers of financial instruments; or
3. Closely related to a specific industry or market such that it informs views on 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.

Acceptable Minor Non-Monetary Benefits

An acceptable minor non-monetary benefit is one which:

1. is capable of enhancing the quality of service provided to the client;
2. is of a scale and nature that it could not be judged to impair the firm's compliance with its duty to act honestly, fairly and professionally in the best interests of its clients;
3. is reasonable, proportionate and of a scale that is unlikely to influence the firm's behaviour in any way that is detrimental to the interests of the relevant client.

Acceptable minor non-monetary benefits include:

1. Corporate sponsored research. Written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm 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. For example, smaller companies listed in the UK traditionally have a house broker who is paid a retainer by the company to write research reports and organise roadshows to investors after results. This research is potentially capable of being characterised as an acceptable minor non-monetary benefit.
2. New issue research. Research relating to an issue of shares, debentures, warrants or certificates representing certain securities by an issuer, which is:
 - a. produced:
 - i. prior to the issue being completed; and
 - ii. by a person that is providing underwriting or placing services to the issuer on that issue; and
 - b. made available to prospective investors in the issue; or

3. Generic information. 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;
4. Research service trials. Research that is received so that the firm may evaluate the research provider's research service, provided that:
 - a. it is received during a trial period that lasts no longer than three 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. the firm makes and retains a record of the dates of any trial period accepted under this rule, as well as a record of how the conditions in (i) to (iii) were satisfied for each such trial period.

A non-monetary benefit that involves a third party allocating valuable resources to the firm is not a minor non-monetary benefit.

Irrespective of how items are labelled or their provenance within a provider firm, in order to be acceptable minor non-monetary benefits, and they must be reasonable, proportionate and of a scale that is unlikely to influence RAMAM's behaviour in any way that is detrimental to the interests of our clients.

Such items need to be recorded in the inducements log.

List of Annexes

Annex A – Standard research assessment form.