

# Miton's Policy on Research and Use of Research Payment Accounts (RPAs)

Miton Asset Management Limited (“**MAM**”) is a UK FCA-regulated firm which is subject to the UK implementation of the second European Markets in Financial Instruments Directive (“**MIFID2**”). Miton Trust Managers Limited (“**MTM**”) is a UK FCA-regulated firm that is subject to the UK rules that implement the European Alternative Investment Fund Managers Directive and the European UCITS Directives. MAM and MTM are collectively referred to in this note as “Miton”.

MiFID2 regulates the manner in which portfolio managers such as MAM are permitted to receive and pay for third party research. In particular, MiFID2 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**”). In the UK, the FCA has decided to apply the new MiFID 2 rules to firms like MTM that are subject to the AIFMD and the UCITS Directive. This Policy, therefore, applies both to MAM and to MTM. MTM, as the investment manager of the FP Miton Income Fund consumes research itself and also, in relation to the Miton Investment Trusts, delegates the portfolio management of the Trusts' assets to MAM. Consequently, MTM's obligations under the relevant FCA rules in relation to the Trusts will be largely satisfied by ensuring that MAM complies with the requirements set out in this Policy.

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 Miton's written policy for the purposes of those FCA Rules. In accordance with the FCA Rules, Miton will provide a copy of this Policy to its clients.

## 1. Background – MiFID2 inducements rules

- 1.1 Under the FCA Rules which implement MiFID2, when Miton is providing portfolio management services to a client, Miton 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:
- acceptable minor non-monetary benefits; or
  - third party research received and paid for in accordance with the arrangements described in this Policy.
- 1.2 The FCA Rules state that third party research that is received by Miton will not be a prohibited inducement if it is received in return for either of the following:
- direct payments by Miton out of its own resources; or
  - payments from a separate RPA controlled by Miton, provided that Miton meets the requirements in the FCA Rules relating to the operation of the account (as described further in section 5 of this RPA Policy).
- 1.3 Miton's broader arrangements and policies in respect of the prohibition on receipt of inducements are set out in Miton's separate Gifts, Entertainment and Inducements Policy.

## 2. What constitutes “research” for the purposes of MiFID 2?

- 2.1 Investment research is defined in the MiFID 2 legislation 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”.

- 2.2 The definition applies to investment research covering all asset classes (including fixed income/credit research and macro research in addition to equities research).



- 2.3 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.
- 2.4 These key elements eliminate a number of 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 (e.g. “Vodafone is looking cheap today”), for example 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;
  - (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 (i.e. un-manipulated) market or other data.
- 2.5 Conversely the following would constitute research:
- (A) 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 (e.g. an analyst) who produced it (whether or not the document includes a buy/sell/hold (or equivalent) 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;
  - (B) in-depth analysis of past, present and/or expected future macroeconomic 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’s/economist’s model(s) and/or workings.
- 2.6 The manner in which material is labelled by its producer is not relevant in determining whether or not 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. Rather, the key question is whether it falls within the definition set out in paragraph 2.1 above.
- 2.7 Examples of goods or services that the FCA does not regard as research, and which, consequently, could not be paid for from RPAs, include:
- post-trade analytics;
  - price feeds or historical price data that have not been analysed or manipulated in order to present the firm with meaningful conclusions;
  - services relating to the valuation or performance measurement of portfolios;
  - seminar fees;
  - corporate access services;
  - subscriptions for publications;
  - travel, accommodation or entertainment costs;
  - order and execution management systems;
  - membership fees to professional associations;
  - direct money payments; and
  - administration of a research payment account.
- 2.8 To the extent that Miton receives any of the above services, such services are required to be paid for by Miton from its own resources.



- 2.9 The above list includes “corporate access services”. “Corporate access services” includes field trips, conferences and individual meetings that involve one or more corporate issuers and which are facilitated for Miton by a bank or broker. Such services are non-monetary benefits and, subject to the exception described in paragraph 2.10 below, are not to be regarded as “minor” in nature. Miton is, therefore, required to pay the bank or broker for such services (at an appropriate rate) out of Miton’s own resources. Alternatively, Miton can approach a corporate issuer directly to facilitate an individual meeting with that issuer, in which case Miton does not need to make a payment.
- 2.10 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. Miton employees are permitted to attend such events without Miton paying a fee to attend.

### 3. What types of materials received from a third party would constitute “minor” non-monetary benefits?

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- 3.1 The prohibition on the receipt of non-monetary benefits by MiFID firms that provide portfolio management or independent investment advisory 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.
- 3.2 For these purposes, there is an exhaustive list of benefits that potentially constitute “minor” non-monetary benefits.
- 3.3 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 section 2.4 above (although it would not include data feeds of raw market data). This category also includes material 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 (“**Free Public Material**”).
- (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:
- 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
  - made available to prospective investors in the issue.
- (D) **Free trials:** research that is received so that Miton may evaluate the research provider’s research service, provided that:
- it is received during a trial period that lasts no longer than three months;
  - 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;
  - 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
  - Miton 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.
- 3.4 In relation to Free Public Material, the Compliance Department keeps a list of research providers who have confirmed to Miton that they make their research public on a free-of-charge basis. This list is available on request from Miton’s Compliance department.



- 3.5 In order for an item to constitute an acceptable minor non-monetary benefit (and, therefore, be received by Miton without paying for it), the following conditions must also be satisfied in relation to that item:
- (A) the fact that Miton may receive non-monetary benefits of that type must have been disclosed (on a generic basis) to Miton's portfolio management/advisory clients;
  - (B) the receipt of the non-monetary benefit must be capable of enhancing the service that Miton provides to its clients;
  - (C) the non-monetary benefit must be of a scale and nature that it could not be judged to impair Miton's compliance with its duty to act honestly, professionally and in accordance with the best interests of its clients; and
  - (D) the non-monetary benefit must be reasonable, proportionate and of a scale that is unlikely to influence Miton's behaviour in any way that is detrimental to the interests of the relevant client
- 3.6 Where the non-monetary benefit involves its producer/provider allocating valuable resources to Miton, the benefit is unlikely to be capable of being categorised as "minor" and, therefore, should not be accepted by Miton without paying for it.
- 3.7 In relation to condition 3.5(B) above, the following conditions must (where relevant) be satisfied, in order for the relevant non-monetary benefit to be treated as "enhancing" the service provided by Miton to its clients:
- (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 Miton, 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 Miton to its client is not biased or distorted as a result of the non-monetary benefit.
- 3.8 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 paragraphs 3.5 and 3.7 above, please speak to the Compliance Department.

#### 4. Miton's policy on payments for research

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- 4.1 Miton has decided that it will pay for all research that it receives using an RPA (other than research that constitutes an acceptable minor non-monetary benefit as described in section 3).
- 4.2 Miton 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 macroeconomic analysis.
- 4.3 Miton believes that (where agreed) the use of RPAs will benefit clients for the following reasons:
- Miton will be able to purchase third party research which is relevant to the particular investment strategy relevant for a particular client's portfolio; and
  - such third party research will assist Miton in making portfolio management decisions in respect of its clients, and through using such research Miton accordingly aims to provide a higher quality of management service.
- 4.4 Miton confirms that, where it arranges to pay for research using an RPA, it will always seek to allocate research costs fairly to the various clients' portfolios. Miton's general approach to allocating costs will ordinarily be as follows:
- 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.
  - 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.
- See also paragraph 5.4, below, in respect of Miton's policy on setting a research budget for multiple clients.
- 4.5 The RPA is a cash bank account maintained by Miton.



## 5. Research charges and research budgets

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

### Research charges:

5.2 Each RPA is funded by a specific research charge agreed with, and payable by, Miton's clients, as an amount due to Miton ("**research charge**"). Miton will ensure that the total amount of research charges collected from all of its clients does not exceed the research budget for the relevant period (as described below).

### Research budget:

5.3 The research charge is based on a research budget set by Miton for the purpose of establishing the amount needed by Miton for third party research in respect of investment services rendered to its clients ("**research budget**"). Miton will set an annual research budget and review the research budget on an ongoing basis as an internal administrative measure.

5.4 In respect of the research budget, Miton's policy is that:

- The budgeting process is carried out by each investment team in conjunction with the Head of Trading with oversight from the Trading and Research Oversight Committee and Compliance.
- Budgeting for research takes place once a year and is reviewed on an ongoing basis, in order to determine Miton's anticipated needs to levy the research charge, in the best interest of clients. Miton's research budget is an ex-ante estimate of forecast expenditure for research costs that can be charged to portfolios with similar strategies under management. Miton seeks to ensure that a 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 Miton on behalf of clients. Instead, the research budget is based on Miton's independent (or "unbundled") assessment of its research needs, as distinct from any trade execution activities.
- Miton does not produce internally-generated research. The research budget is used only to purchase third party research.
- In setting a research budget, and in light of the obligation to fairly allocate costs as described in paragraph 4.4 above, Miton 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.
- Miton will not set a budget for a group of client portfolios or accounts that do not 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 will not be subject to the same research budget.
- As at the date of this Policy, Miton operates a budgeting process for each respective client and a single RPA arrangement covering all of those clients.

### Quality assessment:

5.5 When entering into a relationship with a research services provider, Miton's policy is generally to set measurable ex ante criteria as to how it will value the types, level and quality of service. Miton intends that this will form a framework with each service provider on the level of payment expected for the anticipated provision of services. At the end of the period, based on actual services received, Miton may adjust the payment made to the research firm in a proportionate and predictable manner, based on those criteria.



- 5.6 As part of that process (both ex post and on an ongoing basis) Miton 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 form 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.
- 5.7 As noted above, Miton intends to negotiate with research providers to set ex ante expectations of payment levels (which may be based upon 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 services), and then on an ex post basis to confirm that it has applied appropriate controls in determining actual payments to providers for services received. Miton aims – by clearly linking payments to inputs and services – to mitigate the 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 interests of Miton's clients.
- 5.8 Miton uses the Instinet Commission Management System to assist it with ongoing assessments of the quality of research received from research provider. Miton's payments for research will be made through the Instinet Commission Management System and are based on an assessment of the value of research services received as against the above criteria, and do not take into account any other services provided by a research provider (including, in particular, brokerage services).
- Surplus in the RPA:**
- 5.9 If there is a surplus in a RPA at the end of a period, Miton 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. In general, Miton's policy will be to offset the surplus against the next budget, although if the surplus is substantial we may choose to rebate it to the relevant clients.
- 5.10 In calculating any rebate or offset, Miton will maintain a fair allocation of costs between clients.

## 6. Agreements with clients and provision of information to clients

- 6.1 MAM will agree with all of its relevant clients: (a) MAM's research charge; and (b) the frequency with which the specific research charge will be deducted from the resources of the client during the budget period. Each client's agreement will generally be set out in MAM's investment management agreement with that client.
- 6.2 MAM will also separately provide the following information to its clients,:
- **before the provision of services**, Miton will notify all relevant clients about the budgeted amount for research and the amount of the estimated research charge for each of them; and
  - **on an ongoing basis**, Miton will provide all relevant clients with annual information on the total costs that each of them has incurred for third party research.
- 6.3 For the AIFs and UCITS funds for which it acts as the AIFM or the UCITS management company, MTM will notify the investors in the relevant AIF or UCITS fund of: (a) MTM's budgeted amount for research; and (b) the frequency with which the specific research charge will be deducted from the resources of the relevant fund during the budget period. Where the portfolio management of the relevant AIF or UCITS management company has been delegated to MAM, the details notified will reflect the relevant AIF or UCITS fund's share of the budget notified by MAM to MTM.
- 6.4 Miton will not increase its research budget unless it has provided, in advance, clear information to relevant clients (or, in the case of MTM, the investors in the relevant AIF or UCITS fund) about such intended increases. Miton will provide information on increases in the research budget to relevant clients/investors in good time before such increases are to take effect.



- 6.5 In addition, Miton will provide to its clients (or in the case of MTM, investors in the relevant fund), on their request, a summary of:
- the research providers paid from the client's RPA;
  - the total amount that such providers were paid over a defined period;
  - the benefits and services received by Miton; and
  - how the total amount spent from the RPA compares to the research budget set by Miton for that period, noting any rebate or carry-over if residual funds remain in the RPA.
- 6.6 Miton will also provide the information in paragraph 6.5 to the FCA, on request, for all RPAs.

## 7. Governance and oversight of RPAs

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- 7.1 Miton 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. In particular, Miton has implemented, as part of its periodic Compliance Monitoring Programme the following ongoing checks:
- that the research budget is managed solely by Miton;
  - that the research budget is based on Miton'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 Miton's clients, including
    - an assessment based on sample testing as to whether research satisfies the quality criteria set out in paragraph 5.6 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 Miton and its Clients and any third party research provider; and
    - an assessment as to the reasonable steps taken to ensure that research is not being received beyond that which has been agreed between Miton's Clients and any third party research provider.
- 7.2 In addition, the Miton Group's Trading and Research Oversight Committee controls include verification of: (a) payments made to research providers; and (b) how the amounts paid were determined with reference to the quality criteria described at paragraph 5.5 to 5.7 and this Policy more generally. The Instinet Commission Management System also enables tracking of research spend.
- 7.3 Miton's **Senior Executive Group with oversight from its** Board of Directors 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: (1) linked to the 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.

## 8. Third party administration of the RPA

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- 8.1 Under the FCA Rules, Miton 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 Miton's name, for the purchase of third party research, without any undue delay and in accordance with Miton's instruction.
- 8.2 Miton has decided to exercise its discretion in this area. Miton has duly appointed Instinet Europe Limited ("Instinet"), a firm authorised and regulated by the Financial Conduct Authority whose registered office address is at 1 Angel Lane, London, EC4R 3AB, to provide administration and payment services to Miton, under a RPA Consolidation Services Agreement. Under that agreement, Instinet facilitates the transfer of the relevant research purchase fees from Miton's RPAs to an account in the name of the relevant research supplier.



- 8.3 In order that Miton retains sufficient control of, and is responsible for, the RPA when relying on Instinet to administer it, Miton has ensured that its agreement with Instinet contains provisions with the following effect:
- (a) Miton retains sole, full and absolute discretion over the use of the account and the making of payments or rebates;
  - (b) RPA monies are ring-fenced and separately identifiable from the assets of Instinet; and
  - (c) Instinet has (or its creditors on insolvency have) no right of access or recourse to the RPA for its own benefit (for example to offset other fees owed by Miton, or for use as collateral).

## 9. Best execution

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- 9.1 Miton will not enter into any arrangements relating to the receipt of, and payment for, third party research, that would compromise its ability to meet its best execution obligations as applicable under the FCA Rules.
- 9.2 Miton has a separate Order Execution Policy which sets out the steps that it takes in order 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.

