



# **POLICY FOR THE FUNDING OF THIRD-PARTY RESEARCH**

## **I. Regulatory framework and scope of application**

Groupama Asset Management is an Asset Management Company regulated by the French Financial Markets Authority (AMF) and is authorised to provide investment services, including portfolio management on behalf of third parties, investment consulting and order reception and transmission for third parties (this last activity is carried out for Groupama SA Group companies only).

For the purposes of clarification, the term “order” refers to any instruction to buy or sell any of the financial instruments specified in Article L.211-1 of the French Monetary and Financial Code.

Pursuant to the Markets in Financial Instruments Directive (MiFID), as amended and in force from January 2018, Groupama Asset Management takes all reasonable measures to:

- monitor expenditure in relation to third-party research and;
- ensure their reduction in correlation from the volume or value of the transactions carried out in order to eliminate any form of incentive in the context of the provision of this service.

These new provisions apply to all types of research, on equities or other financial instruments such as bonds and derivatives, used as part of investment services as defined by MiFID.

The applicable rules contained in the MiFID II Directive 2014/65/EU of 15 May 2014 supplemented by Delegated Directive (EU) 2017/593 of 7 April 2016 and incorporated into the AMF General Regulations, were the subject of a guide on the funding of research by investment service providers, which was published on 28 July 2017 and amended on 17 January 2018. In this context, Groupama Asset Management is required to:

- Select service providers whose quality of research contributes to better investment decisions;
- Define its specific research requirements according to a budget established in advance;
- Set a budget allocated by portfolio type according to the type of investment strategy and assigned to the various research providers under the supervision of the management board;
- Manage its research expenditure independently of the volume and value of the transactions conducted;
- Fund research either directly from its own resources, or through a dedicated and controlled research payment account;
- Communicate transparently with clients regarding research expenditure: ex ante and ex post.



This policy aims to describe how the funding of third-party research will be implemented within Groupama Asset Management in terms of the selection, monitoring, evaluation and control of the quality of service provided by third-party research providers.

## **II. Scope**

In order to ensure all clients are treated equally, this policy applies to all portfolios managed by Groupama Asset Management, whether they are managed on behalf of third parties or collectively.

Therefore, this policy applies to all strategies that use third-party research in their investment decision-making process and to all themes or asset classes used by these strategies.

## **III. Third-party research funding model**

Groupama Asset Management uses the following funding mechanisms:

- For equity research requirements: funding is primarily charged to the clients of Groupama Asset Management through a dedicated third-party research payment account, controlled by Groupama Asset Management, the operating procedures for which are governed by the principles included in the AMF guide published in January 2018.
- For other research requirements (all asset classes excluding Equities): direct funding of third-party research services from Groupama Asset Management's own resources.

In fact, Groupama Asset Management's portfolios are grouped by management strategy, in order to target their requirements for third-party research.

## **IV. Definitions**

### **1. Third-party research consumer**

Third-party research consumer organisations are investment service providers that receive or use third-party research as part of their investment services, i.e.:

- Investment firms,
- Credit institutions authorised to provide these investment services,
- Portfolio management companies (including Groupama Asset Management) other than those with the status of investment firm, as part of their individual management or investment advice services.

### **2. Third-party research provider**

Third-party research provider means any third-party service provider supplying financial analysis services, including:

- Independent third-party research providers,



- Providers supplying third-party research and execution services.

In this regard, it is specified that technical solutions providers (votes, statistics etc.) are not considered to be third-party research suppliers.

### **3. Third-party research**

This refers to third-party research materials or services provided by third-party research providers that enable the third-party research consumer to form an opinion on financial instruments, assets or issuers in this sector or market.

These materials or services offer detailed advice based on explicit or implicit recommendations, or suggestions for investment strategies, or provide conclusions based on original analysis and perspectives.

Payment is usually made for the provision of these materials or services. However, some third-party research services may be provided free-of-charge. In this case, the legislation includes a strict definition of what constitutes research provided free-of-charge.

The various forms of research provided for payment and free-of-charge include, but are not limited to, those set out in the table in Appendix 1.

Groupama Asset Management reserves the right to accept third-party research services offered free-of-charge in the following cases:

- During a trial period documented as part of a contract that specifically provides for the third-party research services to become chargeable at the end of this period, which may not exceed 3 months.
- If it is a minor non-monetary benefit that has been formalised in writing, setting out the scope of the services provided free-of-charge.



## **V. Selection and evaluation of third-party research**

As a third-party research consumer organisation, Groupama Asset Management is responsible for determining and selecting third-party research providers, and assessing the services supplied by the providers it selects.

This process is governed by the Committees for the selection and evaluation of third-party research, which meet biannually.

### **1. Determination of third-party research requirements**

In order to understand the necessary level of consumption for third-party research, portfolios that share the same investment objectives are grouped together by strategy. This approach enables third-party equity research requirements to be pooled and funded by deduction from a dedicated fund.

For asset classes excluding equities, the research used is identified in a global way and paid for via Groupama Asset Management's P&L.

### **2. Selection of third-party service providers**

Third-party research providers are selected on the basis of requirements identified by the Management and Analyst teams. This identification is generally carried out at the end of the year for implementation at the beginning of the following year, which allows the research budget to be established on an ex-ante basis. Contracts are signed for a period of one year and are reviewed biannually by the Committee for the selection and evaluation of third-party research.

The Committee for the selection and evaluation of third-party research meets biannually, generally at the end of September and the end of March. This committee is composed of:

- the CIO (Chief Investment Officer);
- the Director of Equities Management;
- the Director of Research;
- the Legal and Regulatory Director;
- ALM Management representatives;
- a Research representative;
- a Management Control representative;
- Regulatory Coordination
- If necessary, others may join the Committee (Head of Accounting, Middle Office representative etc.).

The Committee is overseen by Regulatory Coordination which is responsible for:

- Organising and ensuring the correct conduct of voting;
- Monitoring recommendations issued from one Committee meeting to the next;



The Committee is systematically the subject of a presentation document as well as a report, distributed at the end of the Committee to the participants of the Committee as well as to the General Management

The Committee is committed to reviewing:

- Follow-up points from one Committee meeting to the next;
- Regulatory changes relating to third-party research (mainly the MiFID Directive);
- Changes to the basis of Due Diligence carried out on third-party research providers;
- The monitoring of contractual relationships with service providers;
- The updating of this policy where necessary;
- Global third-party research consumption statistics, by research funding method (funding via an investment vehicle or via Groupama Asset Management's P&L) and by Management Desk;
- The result of the overall evaluation of service providers, by research funding method and by Management Desk.

To select a service provider, the Committee looks at the assessments issued by the various departments of Groupama Asset Management that are involved, based on the information to which Groupama Asset Management has access when making its selection, and derived from evaluations if the provider is already a current provider.

The list of third-party research providers may be revised at any time between third-party research provider selection and evaluation Committee meetings if the service offered by a service provider falls below the standard of the previous evaluation. A trial period may also be included in an agreement with a new service provider, for example when implemented in support of a new strategy.

### **3. Evaluation of third-party research services**

Third-party research services are continuously monitored to ensure that they meet the criteria at the required level. An evaluation of service providers is carried out biannually, the results of which are discussed during meetings of the Committee for the selection and evaluation of third-party research (see paragraph 2).

The evaluation carried out on behalf of the Committee for the selection and evaluation of third-party research takes the form of a vote organised by the Regulatory Coordination team via the Commcise tool (Euronext).

All research users (Managers and Analysts) have access to this tool that allows them to rate each provider based on different criteria, which varies depending on the Management Desk:

- The quality of micro research;
- The quality of macro research;
- The quality of written research as a whole or as applied to certain themes;
- The access to and depth of corporate access;
- Access to Analysts and/or Strategists;
- The quality of exchanges with Analysts and/or Strategists;



- The quality of quantitative research/derivatives strategy;
- The quality of the relationship with Sales;
- The quality of bespoke research.

Moreover, the tool also requires that a comment is left for each service provider. The ratings are then reviewed and presented to the Committee with a timescale of several half years (current and past) to track changes to the rating over time. These results are taken into account when deciding whether or not to maintain each relationship and contribute to the setting of the budget for the following financial year.

## **VI. The funding of third-party research: budget**

### **1. Setting the third-party research budget**

Third-party research used for equity strategies is funded primarily by clients, and research used for other strategies is funded from the company's own resources.

The system set out below describes the process for setting and controlling the third-party research budget for third-party research expenditure charged to clients and specifies the rules for allocating this budget by portfolio.

#### **A. Determining the third-party research budget**

Groupama Asset Management determines in advance the third-party research budget required to fund the provision of quality third-party research for the portfolio's strategy. A provision is made in the event of any requirements that were not anticipated ex ante which would allow for an amendment to the budget.

In accordance with the regulations in force, the budget is "based on a reasonable assessment of the requirements for third-party research".

Groupama Asset Management identifies all its third-party research requirements and the suppliers offering this third-party research for the coming financial year.

The nature, volume and price of the services are negotiated and set out in a contract with each of the selected suppliers (including trial periods).

The total annual third-party research budget by strategy is then determined by consolidating the amounts contracted with the third-party research suppliers.



## **B – Allocating the budget by portfolio**

Groupama Asset Management allocates ex ante the total third-party research budget to the portfolios using the following method:

1<sup>st</sup> stage: budget allocation by strategy

2<sup>nd</sup> stage: within each strategy, the budget is allocated by portfolio

## **2. Controlling the budget**

Groupama Asset Management has set up a third-party research budget supervision process.

The monitoring of third-party research consumption is carried out on a continuous basis. As and when required, the persons concerned may meet to approve ad hoc adjustments, particularly in the event of the balance in the client-supplied payment accounts being insufficient to pay the invoices for the services used.

## **VII. Monitoring and revision of the policy for the funding of third-party research**

Groupama Asset Management continually seeks to ensure the relevance of its policy for the funding of third-party research, which is regularly monitored. The policy is reviewed at least annually by the Committee for the selection and evaluation of third-party research, which determines whether or not it needs to be updated.

The policy is available on the Groupama Asset Management website, and any changes to this policy will result in the publication of a new version.



## Appendix 1

Services provided for payment	Services provided free-of-charge
<p><b>Traditional research services:</b></p> <p>Chargeable services are always set out in a <b>contract</b>. This contract may include a trial period.</p> <p><b>Trial period:</b> A trial period may be agreed between a third-party research provider and a third-party research consumer organisation, offering a portfolio management service or independent investment advice, provided that all the following criteria are met:</p> <ol style="list-style-type: none"> <li>1. the trial period must be offered <b>prior to the decision to conclude a contract or an agreement between the parties</b> on the provision of paid third-party research services;</li> <li>2. the <b>content of the services offered</b> within the framework of the trial period must be determined by the parties in advance;</li> <li>3. the trial period must be strictly defined and limited in time by the parties and may not exceed a <b>period of three months</b>;</li> <li>4. the third-party research consumer gives no monetary or non-monetary consideration to the third-party research provider that may be perceived as an implicit payment (this could be the case of an order flow that is abnormally high when compared to an ordinary flow in the absence of a trial period);</li> <li>5. the trial period must be subject to a <b>control mechanism</b> so that the third-party research consumer ensures that the third-party research services received free of charge during the trial period are <b>not unduly invoiced to its clients</b>;</li> <li>6. the trial period may <b>not be renewed</b> by the parties within twelve months of its expiry.</li> </ol>	<p><b>Minor non-monetary benefits:</b></p> <p>These are non-substantive materials or services, or information on upcoming releases or events, which are provided by a third party and contain only a brief summary of their own opinion on such information that is not substantiated nor includes any substantive analysis.</p> <p>These benefits must otherwise be reasonable and proportionate and on such a scale that they are unlikely to influence the management company's behaviour in any way that is detrimental to its clients.</p>
<b>Macroeconomic third-party research</b>	
<p>Macroeconomic analysis that, implicitly or explicitly, suggests an investment strategy is considered to be third-party research.</p>	<p>Due to their generic nature or the fact that they are available to any potential investor, some macroeconomic analysis notes may be considered to be a <b>minor non-monetary benefit</b>.</p>
<b>Corporate access</b>	
<p>Corporate access can be defined as when a third party puts management companies in contact with issuers of one or more financial instruments with a view to discussing that issuer's strategy, position or outlook.</p> <p>There are two types of corporate access:</p> <ul style="list-style-type: none"> <li>- Purely "concierger" services</li> <li>- Intellectual services</li> </ul> <p>Purely "concierger" services consisting of the "simple" physical setting up of a meeting may be funded from the third-party research consumer organisation's own resources, if it considers this service a commercial service.</p> <p>Services of an intellectual nature provided by corporate access, such as a summary of information exchanged during the meeting, may alternatively:</p> <ul style="list-style-type: none"> <li>- be accepted and paid for: either by the third-party research consumer organisation directly using its own resources or by the end client via the third-party research budget.</li> <li>- be refused: the third-party research consumer organisation cannot accept this benefit, which is deemed to compromise its obligation to act in the best interest of its clients.</li> </ul>	<p>Purely "concierger" services consisting of the "simple" physical setting up of a meeting may be qualified as a <b>minor non-monetary benefit</b> and be received free of charge if it meets the required criteria.</p>

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