

# Policy for Selecting Providers of Investment Decision Support and Order Execution Services

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## 1. Regulatory Framework

Since 3 January 2018, the funding of research has been governed by the Markets in Financial Instruments Directive (MiFID II) and the Commission Delegated Directive of 7 April 2016 (Delegated Directive) to protect investors and reduce the risk of conflicts of interest: this legislation has restricted, or even prohibited, the possibility for investment service providers (ISPs) to receive or pay inducements.

As a matter of fact, MiFID II considers that provision of research constitutes a form of inducement for the recipient, i.e., an advantage in the broadest sense of the term, which may give rise to potential conflicts of interest. **Any receipt of inducement is now prohibited in the context of the provision of portfolio management services on behalf of third parties (or management mandate) or for service of investment advice provided on an independent basis.**

Article 13 of the Delegated Directive details how the rules on inducements are to be applied to the specific case of the provision of research by third parties to ISPs, and now requires that the research be subject to one of the following modes of financing:

- Direct payment for research by the ISP out of its own resources, or
- Payment from a separate research payment account charged to ISP clients and controlled by the ISP under specific operational conditions in terms of functioning and transparency.

Under the scope of MiFID II, the new provisions on inducements in relation to research apply only to ISPs in the context of their portfolio management activities on behalf of third parties or for independent investment advice services. Nevertheless, management companies that manage UCITS or AIFs are free to extend this mechanism to the consumption of research within the framework of their collective management activities, provided that the collective investment holders are clearly notified about it in advance.

**In any event, research fees charged to clients under management mandate must not finance research used for the collective management activity, and vice versa.**

## 2. Definition of Investment Decision Support and Order Execution Services

Since 1 January 2018, the funding of research has been governed by the Markets in Financial Instruments Directive (MiFID II) and the Delegated Directive of 7 April 2016 to protect investors and reduce the risk of conflicts of interest.

Mirova has established and implemented a policy for the selection and assessment of providers of investment decision support and order execution services, as defined by Articles 321-119 and 319-14 of the AMF's General Regulation, by taking into account the following criteria:

- The quality of the research,
- The relevance of analysts' recommendations,
- The cost of the service,
- The quality of the relationship.

Investment decision support services are defined as all the economic research and financial analysis products and services<sup>1</sup> provided by market intermediaries. More specifically, they include:

- Basic research and recommendations on securities,
- Macroeconomic and strategic research,
- Quantitative research and asset allocation,
- ESG research.

To diversify its sources of information, Mirova has the possibility to rely on third parties – not necessarily involved in the provision of investment services – mainly to obtain investment decision support services other than research services. These decision support services, the cost of which may be borne by the portfolios (UCIs), must not be included in the list of "unauthorized services"<sup>2</sup> defined by the AMF.

### 3. Policy for Selecting Market Intermediaries

Mirova selects the investment decision support services provided by the market intermediaries following the annual review process involving all members of the equity management team.

This review aims to identify the intermediaries able to provide services that meet the needs of Mirova's equity management team, with the best quality/price ratio. It is notably based on an analysis of the type of the services provided (research, access to analysts, access to companies, sales, etc.), the quality and added value of the research (fundamental, macro, quantitative research, etc.), the relevance and the extent of the monitoring scope (geographical area, number of companies, etc.), the quality of the service and recommendations, as well as the price of the services.

### 4. Assessment Process for Market Intermediaries

An evaluation of the quality of the services provided by market intermediaries is carried out on an annual basis. This process aims to measure the quality and relevance of the services provided in relation to the expectations and needs of Mirova's Equity Management teams.

The evaluation is carried out by all members of the Equity Management team to measure the quality of research, the access to companies (conference organization and quality, access to meetings with companies, organization of site visits, proposals for meetings with companies) and the quality of the sale service (availability and responsiveness of salespeople and analysts).

<sup>1</sup> Please, refer to the description provided by the AMF guide on the methods of financing research by investment service providers within the framework of the MIFID II Directive

<sup>2</sup> Please, refer to the AMF instruction No. 2007-02 relating to Articles 321-119 and 319-14 of the AMF General Regulations.



## 5. Remuneration of Market Intermediaries

### □ Setting **the annual budget**

An annual budget for the remuneration of market intermediaries for investment decision support services is proposed by the Director of Equity Management and validated by Mirova's Chief Executive Officer.

### □ **Methods of remuneration of market intermediaries**

The remuneration of market intermediaries is carried out either directly by the management company, or through a research payment account (RPA) based on commission sharing agreements (CSAs), levied as part of the intermediation fees. Among these fees are those relating to the execution of orders, on the one hand, and those relating to investment decision support services, on the other hand (See Follow-up of the intermediation fees).

The definition of the scope of the funds to which one of the two methods of remuneration for investment decision support services applies is a commercial choice and is decided by Mirova's general management and management teams' directors.

## 6. Follow-up of the Intermediation Fees

The intermediation fees are regularly monitored regarding the amounts allocated for order executions, and for investment decision support and order execution services.

This monitoring takes into account the share of commissions that is paid to third parties within the framework of the commission sharing agreements that MIROVA has entered into with the various market intermediaries.

The intermediation fees paid to market intermediaries for investment decision support services are reported in a document available on Mirova's website.

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