

# MAKE INFORMED DECISIONS FOR RESEARCH-RELATED FIDUCIARY RISKS & RESPONSIBILITIES

# SOFT DOLLAR & RESEARCH BUDGET AUDIT

## EVALUATE, MANAGE AND CONTROL COMMISSIONS AND RESEARCH COSTS

New regulations in Europe under the Markets in Financial Directive II (MiFID II) have banned the use of soft dollars by investment managers. This has created a "ripple effect" in the US for asset owners using global managers.

As a result, asset owners face new fiduciary risks and responsibilities; and need to make prudent, informed decisions regarding research-budget requests received from their managers.

US asset owners also need to ensure their fund is being treated as well as their managers' European clients, and is not subsidizing the research costs of the European clientele.

As its name implies, the Soft Dollar & Research Budget Audit is designed to help asset owners review the soft dollar/research policies and practices of their managers and provide tools necessary for assessing their reasonableness.

Our audit also assists asset owners in encouraging their managers' prompt

Manager	Investment Mandate	Research-budgeting Process		Compliance/Fiduciary Oversight Issues				
		Level of Transparency	Uses External research	Pays for European clients' research	Pays for US clients' research	Best Execution (on Soft-\$ trades)	Client Cross-subsidizing	Research-spend Variation (from prior year)
Manager A	US REIT	Superior	Yes	No	No	○	○	Reduced by 72%
Manager B	Global Equity	Adequate	Yes	No	No	●	○	Reduced by 39%
Manager C	Large Cap Value	Adequate	Yes	No	No	●	●	Same
Manager D	Small Cap Value	Adequate	Yes	Yes	Yes	○	○	Increased by 7%
Manager E	Small Cap Growth	Superior	Yes	No	No	○	●	Reduced by 7%
Manager F	Global Value Equity	Deficient	Yes	Yes	Yes	○	○	Not disclosed
Manager G	Large Cap Core	N/A	No	N/A	N/A	N/A	N/A	N/A
Manager H	Global Equity	N/A	No	N/A	N/A	N/A	N/A	N/A
Manager I	Large Cap Growth	Superior	Yes	Yes	Yes	○	○	Reduced by 2%
Manager J	EAFE	Deficient	Yes	Not Disclosed	Not disclosed	○	Not disclosed	Reduced by 30%
Manager K	Total Return	Deficient	Yes	Yes	No	●	●	Not disclosed
Manager L	Non-US All Country	Adequate	Yes	Yes	No	○	○	Reduced by 68%

*Is your fund receiving best execution on soft-dollar trades, being treated fairly relative to your managers' European clients, and receiving sufficient research to sustain your return objectives?*

compliance with these regulations while tracking investment progress. Furthermore, it helps ensure a fund is not disadvantaged relative to the managers' other clients.

### Features:

- Quantitative best execution analysis on Section 28 (e) soft dollar trades.
- Identifies the fund assets spent on research, and whether those costs were reasonable, consistent with Section 28(e)/MiFID II, and permissible under the fund's investment policies
- Qualitative review of manager research-budgeting practices and policies
- Comparison of pre-MiFID II research spend "baseline" vs. subsequent years
- Ascertain whether managers are using fund assets to subsidize the

research costs of European clients, and/or if a US fund is being treated worse than the managers' European clients

- Critical insights regarding managers' research policies and practices helps decision making on future research-budget requests
- Written recommendations and follow-up on issues flagged
- Ad hoc consultative advice on research-related best practices

### Additional Services

- Equities, Fixed Income, FX, Options and Futures TCA
- Transition Reporting and Consulting
- Commission Recapture Program Audits
- Liquidity Threshold Analysis