



RESEARCH VALUATION AND  
BUDGETING POLICY OF C  
WORLDWIDE ASSET MANAGEMENT  
FONDSMAEGLERSELSKAB A/S

October 2017



## 1 Introduction

External investment research contributes materially to the ability of C WorldWide Asset Management Fondsmæglerselskab A/S (“CWW AM”) to deliver expected risk adjusted returns for the clients. In order to comply with the requirements regarding research unbundling of MiFID II (Directive on markets in financial instruments 2014/65/EU), CWW AM has implemented a research budgeting and valuation system that aligns the external research spending with the investment objective of the investment strategy which each client is invested in.

The research budgeting policy of CWW AM is based on the premise that different investment strategies require different types and amounts of external research capabilities. The different research spending requirements or research intensities are a function of the expected risk adjusted returns and volatilities of each investment strategy. In addition, research intensity is a function of the complexity of the investment strategies instruments and/or the breadth and depth of its investments universe. In other words, low expected return, low volatility, and less complex strategies tend to require less research spending than higher expected return, higher volatility, and complex ones. The research valuation and budgeting system of CWW AM allocates research spending budgets based on the above principles.

## 2 Strategy Budget Groups

After reviewing the investment strategies of CWW AM’s client universe, each of our clients’ portfolios has been categorised into Strategy Budget Groups (“SBGs”) – of which we have currently identified four. The investment strategies are clustered in to SBGs based on similarities in their need of research to achieve the expected risk adjusted returns. At the core of the research budgeting and valuation system is the principle of creating research budgets for each group of strategies.

The research budget of each individual client reflects the overall budget of the particular SBG to which the investment strategy applied to mandate belongs and does not reflect differences in the investment universes of the SBG which CWW AM deems not to be substantial for the budgeting process.

CWW AM is a team based investment organisation. Each SBG has its own individually set budget for its own use of research and related services but the research might benefit more SBGs at the same time. If two or more SBGs use the same research provider each SBG will still have its own allocation based on its own budget and its own view of the value of the research to the individual SBG. This is to minimise the risk of cross-subsidisation between different SBGs.

## 3 Identifying types of research for each SBG

Each SBG has an SBG Coordinator who prioritises and quantifies the types of external research needed for the SBG based on quantitative and qualitative input from the Investment Professionals managing investment strategies within the SBG. The SBG Coordinator consolidates the input from the Investment Professionals within the SBG to an overall SBG top-level allocation of research priorities in terms of broad allocation to different type of research and interaction needed, such as sector,

regional, thematic, ESG, macro, strategy, quant, and other relevant criteria. Based on the top-level allocation for each SBG the individual Investment Professionals in each SBG will rate and prioritise their requirements. This is done on an ongoing basis and will be documented at a minimum semi-annually.

This process ensures that CWW AM's research budgeting is a direct extension of the investment/portfolio construction process thereby aligning the research spending priorities to the expected risk-adjusted return of the portfolio itself and consistent with service-based research payments.

Each SBG has a distinct research requirement and each strategy shall pay for its own research use.

#### 4 Portfolio construction drives the research budgets

The SBG top-level budget allocations are subsequently broken down into weightings based on what type of research that is deemed to be needed for the strategies to deliver their expected risk adjusted returns. These may for instance refer to current or potential portfolio themes, country/geographic focus, industry sector focus or types of investment instruments in the portfolio. The purpose of breaking down the research components of the portfolio is to align the research spending with the investment strategy and to monitor developments in that sector/region to assess its investment potential. Orienting the research budget to portfolio construction further narrows the scope for a strategy to pay for research it does not use or to cross-subsidise another strategy.

#### 5 Research Services

As an investment manager of long term investment strategies, the research services used by CWW AM include insightful research reports, financials models, conferences and meetings with company management, access to analysts and sales coverage that is delivered with consistency over time and which has in the past proved relevant and has added value.

The types of research used by CWW AM vary widely but may include the following categories: regional research, macro/strategy, sector, modelling, consultation with analysts, conferences (sector, thematic etc.) ESG, thematic, quant and specific access to key competences within research providers.

CWW AM values research service quality over quantity or frequency. Each of CWW AM's Investment Professionals have, over the years, developed a network of research inputs which contribute to long term risk adjusted returns. The research providers include traditional global investment banks, boutique research specialists and independent research providers.

#### 6 Research Budget

Each SBG is responsible for its budgeting process. Each SBG-team will, as an ongoing process, evaluate what type of external research that is needed to deliver the

expected risk adjusted returns for the coming budget period. In addition to that each SBG will have, at least annually, price/cost discussions with the current and potential providers of research services. These two factors will then be used to establish a research budget for each SBG.

Based on the research cost indications from the research services providers, each SBG will aim to optimise the research spendings for every budget period to achieve the highest value-added input that can be achieved from the funds spent on external research.

Under MiFID II, CWW AM is required to provide ex-ante research budgets to clients. As it is impossible to predict how many research reports that will be consumed, the quality and relevance of the same or how many meetings that will take place with a research provider one year in advance, CWW AM will rather be focusing on identifying and valuing the specific research services CWW AM is likely to use during the coming period. This will be based on the strategy's investment process, securities universe and portfolio construction. All SBGs within CWW AM will in their appraisal of the research services focus on qualitative aspects, value added research and related research services mentioned above rather than a quantitative approach.

## **7 Investment Professional Research Service Appraisals and research budget adjustments**

The research valuation and budgeting process requires that the Investment Professionals do a semi-annual evaluation of the research providers. The review and potential adjustment of the research providers and/or research budget can be done intra period if needed. For example, if a certain research provider loses a team of analysts or a key analyst that the SBG have valued highly, the SBG will adjust the allocation within the SBG and the research budget accordingly. The valuation process harmonises all research so that contracted independent research providers are valued in the same way as brokers also providing research. Additionally, SBGs are not constrained to use the same research providers as the other SBGs. The basis for the appraisals is the individual research need for each SBG.

CWW AM has identified each Investment Professional and has assigned the Investment Professional to specific SBGs that have discreet budgets based upon their research needs to achieve the expected risk adjusted returns. Each Investment Professional could have different weights in a specific SBG. Each Investment Professional will document substantive interactions with the research provider during the period in question to increase the granularity in the research service appraisals. Based on this input the SBG then creates a monetary valuation of the research service based on its expected contribution to risk-adjusted return.

## **8 Update of policy**

This research valuation and budgeting policy applies from January 1, 2018 and shall be reviewed and updated as needed but at least annually.

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