

# M&G's Inducements Disclosure Statement

Updated January 2023



## 1. Introduction

The Conduct of Business Sourcebook of the UK Financial Conduct Authority's (FCA) Handbook (COBS), sets specific rules relating to Inducements (the Inducement Rules). These are derived from the Markets In Financial Instruments Directive but continue in force post Brexit. Currently they are broadly in line with EU rules, but this may change over time as the UK regime diverges.

This summary applies to M&G Investment Management Limited (MAGIM) and M&G Alternatives Investment Management Limited (MAGAIM).

This summary is intended to provide you, M&G's Professional Clients, with information pertaining to M&G's approach on Inducements.

The summary below, therefore, identifies the types of receipts, payments and non-monetary benefits M&G may make or receive in accordance with the Inducement Rules as well as setting out its approach with respect to complying with its regulatory obligations. In particular, this summary is designed to address two distinct sets of obligations that apply to M&G under the Inducement Rules:

- the requirements that apply when M&G Investment Management Limited (MAGIM) is providing you, its Professional Clients, with portfolio management services; and
- the requirements that apply when M&G Alternatives Investment Management Limited (MAGAIM) is acting in the capacity of alternative investment fund manager (AIFM) under Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers (as implemented in the UK).

M&G's approach to inducements (as summarised herein) is further supplemented by M&G's Gifts and Hospitality Standard (the G&H Policy). The G&H Policy outlines the requirements applicable to M&G employees in relation to the giving and receiving of gifts and/or hospitality in connection with their M&G activities.

## 2. Categories of Inducements

The Inducement Rules applicable to us relate to the following kind of inducements:

- a. any payment to a party (other than to you as client, or a person on behalf of you as client) of any fee or commission;
- b. any fee, commission or monetary benefit paid or provided to us by any third party or a person acting on behalf of a third party;
- c. any provision of a non-monetary benefit to any party (other than to you as client, or a person on behalf of you as client); and
- d. any non-monetary benefit provided to or received by us.

## 3. A summary of M&G's approach on Inducements

M&G has designed this document with regard to its core activity of providing portfolio management services and acting as alternative investment fund manager.

### a. Portfolio Management - MAGIM

#### a. Payment of fees or commissions to a third party<sup>1</sup>

MAGIM cannot (and does not) pay a third party (i.e. a party other than a client or a person on behalf of the client) any fee or commission in connection with its provision of portfolio management services (or any other investment service it provides), unless such payment is:

- (i) designed to enhance the quality of the relevant service to the client; and (ii) does not impair compliance with the firm's duty to act honestly, fairly and professionally in the best interests of the client; or
- a payment which enables or is necessary for the provision of investment services provided by MAGIM (such as custody costs, settlement and exchange fees, regulatory levies or legal fees) and which, by its nature, cannot give rise to conflicts with MAGIM's duty to act honestly, fairly and professionally in the best interests of the client.

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<sup>1</sup> Please see COBS 2.3A.5R.

Where MAGIM makes a payment (as described above), it will clearly disclose to a client, before providing the relevant service:

- the existence and nature of the payment; and
- the amount of the payment (or, where this cannot be ascertained, the method for calculating the amount).

#### b. Fee, commission or monetary benefits paid or provided to us by any third party<sup>2</sup>

Where MAGIM provides portfolio management services to you, it cannot (and does not) accept and retain any fee, commission or monetary benefits where these are paid or provided by a third party (or person acting on behalf of a third party) in relation to the provision of such services. Any such fee, commission or monetary benefit that MAGIM receives will be paid to you as soon as reasonably possible.

MAGIM may accept and retain fees, commissions and monetary benefits which are paid or provided to it:

- by a client; or
- a person acting on behalf of a client (provided that person is aware that such payments have been made on the client's behalf and the amount and frequency of the payment is agreed between the client and MAGIM and not determined by a third party).

As such, MAGIM can (and does) accept and retain payments from clients pursuant to invoices it issues to such clients in relation to the portfolio management services it provides.

#### c. Provision of non-monetary benefit to a third party<sup>3</sup>

MAGIM cannot (and does not) provide a third party (i.e. a party other than a client or a person on behalf of the client) any non-monetary benefit in connection with its provision of portfolio management services (or any other investment service it provides), unless the provision of the non-monetary benefit is:

- (i) designed to enhance the quality of the relevant service to the client; and (ii) does not impair compliance with the firm's duty to act honestly, fairly and professionally in the best interests of the client; or
- a benefit which enables or is necessary for the provision of investment services provided by MAGIM and which, by its nature, cannot give rise to conflicts with MAGIM's duty to act honestly, fairly and professionally in the best interests of the client.

MAGIM generally does not provide any non-monetary benefits to third parties in connection with its provision of portfolio management services (or any other investment service it provides). However, to the extent it does provide any such non-monetary benefits to a third party, it will only do so where it is permitted under applicable law in line with the above.

#### d. Non-monetary benefits provided to or received by us<sup>4</sup>

Where MAGIM provides portfolio management services to you, it cannot (and does not), in relation to the provision of such services, accept any non-monetary benefits from a third party (or person acting on behalf of a third party) other than:

- acceptable minor non-monetary benefits (MNMB); or
- third party research received in accordance with the Inducement Rules in COBS 2.3B (see section 3b below).

A benefit is considered to be an MNMB when:

- the benefit is clearly disclosed prior to the provision of the relevant service to the client (see below);
- the benefit is capable of enhancing the quality of the service to the client;
- the benefit is of a scale and nature that it could not be judged to impair MAGIM's compliance with its duty to act honestly, fairly and professionally in the best interests of the client;
- the benefit is reasonable, proportionate and of such a scale that it is unlikely to influence MAGIM's behaviour in any way that is detrimental to the interests of the relevant client; and
- consists of a benefit listed COBS 2.3A.19R (5).

#### Disclosure of MNMBs that MAGIM receives or may receive in connection with the provision of portfolio management services to clients

MAGIM receives or may receive the following MNMBs in connection with the provision of portfolio management services to clients:

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<sup>2</sup> Please see COBS 2.3A.16R(2)(a).

<sup>3</sup> Please see COBS 2.3A.5R.

<sup>4</sup> Please see COBS 2.3A.16R(2)(b)

- a) 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 (such as short-term market commentary; economic releases or brief unsubstantiated summaries of a third party's own opinion);
- b) written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm 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;
- c) participation in conferences, seminars and other training events on the benefits and features of a specific financial instrument or an investment service;
- d) hospitality of a reasonable de minimis value, such as food and drink during a business meeting or a conference, seminar or other training events mentioned under c) above (which is supported by the G&H Policy);
- e) research relating to an issue of shares, debentures, warrants or certificates representing certain securities by an issuer, which is:
  - o produced:
    - prior to the issue being completed; and
    - by a person that is providing underwriting or placing services to the issuer on that issue; and
  - o made available to prospective investors in the issue; or
- f) any of the other MNMBs set out in Part 1 of Appendix 1 of this document.

In the case of each benefit specified above, MAGIM believes that the relevant MNMB is:

- capable of enhancing the quality of the service provided by MAGIM to a client;
- of a scale and nature that it could not be judged to impair the MAGIM's compliance with its duty to act honestly, fairly and professionally in the best interests of a Client; and
- reasonable, proportionate and of a scale that is unlikely to influence MAGIM's behaviour in any way that is detrimental to the interests of a client.

#### b. Investment Research<sup>5</sup>

Where providing portfolio management services, MAGIM can receive third party research without such research amounting to an inducement in breach of the Inducement Rules where it is received in return for either: (i) direct payments by MAGIM out of its own resources; or (ii) payments from a separate research payment account controlled by MAGIM.

Where MAGIM provides the portfolio management services and / or MAGIM provides the portfolio management services and delegates investment management to an investment manager, MAGIM will, in relation to such services:

- make a direct payment out of its own resources for third party research that it receives; and
- ensure that the investment manager, to whom investment management is delegated to, makes a direct payment out of its own resources for third party research that it receives.<sup>6</sup>

M&G and/or an investment manager, to whom investment management has been delegated to, may also receive, without making payment, the following types of research material where such research qualifies as an MNMB:

- i. 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;
- ii. written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm 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;
- iii. research relating to an issue of shares, debentures, warrants or certificates representing certain securities by an issuer, which is:
  - o produced:
    - prior to the issue being completed; and
    - by a person that is providing underwriting or placing services to the issuer on that issue; and
  - o made available to prospective investors in the issue;

<sup>5</sup> Please see COBS 2.3B.

<sup>6</sup> In certain limited circumstances, a non-UK / non-EEA investment manager to whom MAGIM delegates investment management cannot pay for investment research in "hard dollars" or operate an execution only arrangement. In such circumstance, MAGIM procures that the relevant non-UK / non-EU investment manager, in relation to its receipt of and (as applicable) payment for research, will establish and maintain arrangements that are designed to result in the same investor protection outcomes for clients as the Inducement Rules (relating to the use of and payment for research) that apply to MAGIM, and that such arrangements will include: (i) setting a budget for the research costs that the relevant non-UK/non-EU investment manager expects to incur on behalf of a client, and providing MAGIM a copy of its policy as to how that budget will be used; (ii) fully accounting for the research inputs it receives in relation to managing the client portfolios, the value of the research inputs used (using objective benchmarks or metrics to make this value-assessment), and controlling payments made to research providers in line with the valuation of services; and (iii) having systems and controls to ensure that the receipt of research does not influence order routing and best execution decisions, or give rise to any other conflicts of interest that risks material detriment to the clients. This approach is guided by the FCA's letter to AIMA of July 2017 clarifying how the MiFID2 research unbundling rules should be applied to non-EEA delegates.

- iv. research that is received so that the firm may evaluate the research provider's research service, provided that:
  - o it is received during a trial period that lasts no longer than three months;
  - o 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; and
  - o 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
- v. any of the other research items set out in Part 2 of Appendix 1 of this document.

### c. Alternative Investment Fund Manager - MAGAIM

Where MAGAIM acts as an AIFM and is: (i) carrying on AIFM investment management functions<sup>7</sup>; and (ii) executing orders, or placing orders with other entities for execution, that relate to financial instruments for or on behalf of an AIF, the FCA rules on research and inducements for collective portfolio managers<sup>8</sup> (the AIFM Inducement Rules) will apply to it.

However, these rules will not apply to MAGAIM in relation to an AIF which, in accordance with its core investment policy:

- a) does not generally invest in financial instruments that can be registered in a financial instruments account opened in the books of a depository or physically delivered to the depository; or
- b) generally invests in issuers or non-listed companies to potentially acquire control over such companies either individually or joint with other funds.

**Where the AIFM Inducement Rules do apply, MAGAIM will follow the approach set out below.**

#### I. Inducements

When executing orders, or placing orders with other entities for execution, that relate to financial instruments for, or on behalf of, the AIF, MAGAIM will not:

- a) accept and retain any fees, commissions or monetary benefits paid or provided by a third party or any person acting on behalf of a third party; or
- b) accept any non-monetary benefits provided by a third party or a person acting on behalf of a third party.

In respect of a) above, MAGAIM will return, as soon as reasonably possible, any such fees, commissions or any monetary benefits it has received to the AIF. Further, it will inform investors in the AIF about any such fees, commissions or monetary benefits transferred to it as part of the annual reports provided on request to investors.

In respect of b) above, MAGAIM can accept:

- minor non-monetary benefits (AIFM MNMBs) that are:
  - o capable of enhancing the quality of service provided to the AIF; and
  - o of a scale and nature such that they could not be judged to impair MAGAIM's compliance with its duty to act honestly, fairly and professionally in the best interests of the AIF; and
- research if the requirements of the AIFM Inducement Rules are met (see section ii Research, below).

MAGAIM will only accept an AIFM MNMB where it is reasonable, proportionate and of a scale that is unlikely to influence MAGAIM's behaviour in any way that is detrimental to the interests of the AIF, and which consists of:

- a) information or documentation relating to a financial instrument, that is generic in nature (such as short-term market commentary; economic releases or brief unsubstantiated summaries of a third party's own opinion);
- b) written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm 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;
- c) participation in conferences, seminars and other training events on the benefits and features of a specific financial instrument;
- d) hospitality of a reasonable de minimis value, such as food and drink during a business meeting or a conference, seminar or other training events mentioned under c) above (which is supported by the G&H Policy);
- e) research relating to an issue of shares, debentures, warrants or certificates representing certain securities by an issuer, which is:

<sup>7</sup> AIFM Investment Management Functions are defined in the FCA Handbook as "investment management functions of an AIFM being portfolio management or risk management".

<sup>8</sup> Please see COBS 18 Annex 1, which contains the FCA's rules on research and inducements for collective portfolio managers.

- produced:
    - prior to the issue being completed; and
    - by a person that is providing underwriting or placing services to the issuer on that issue; and
  - made available to prospective investors in the issue; or
- f) any of the other AIFM MNMBs set out in Part 3 of Appendix 1 of this document.

## ii. Research

When executing orders, or placing orders with other entities for execution, that relate to financial instruments, MAGAIM can receive third party research without such research amounting to an inducement in breach of the AIFM Inducement Rules where it is received in return for either:

- direct payments by MAGAIM out of its own resources; or
- payments from a separate research payment account controlled by MAGAIM.

In such circumstances, MAGAIM (when subject to the AIFM Inducement Rules) will therefore only accept third party research where:

- such research constitutes an acceptable AIFM MNMB under the AIFM Inducement Rules (see section i Inducements above); or
- MAGAIM pays for the research out of its own resources.

## **d. Conclusion**

M&G takes all reasonable steps to ensure that its approach to inducements and investment research is properly managed. Consequently, its investment processes are overseen by senior management and monitored by its Compliance department who evaluate, on a periodic basis, the range of goods, services and non-monetary benefits used to determine whether they continue to be appropriate and deliver, on a consistent basis, benefits to you. In addition, M&G's approach to inducements and investment research is reviewed periodically. If there are any material changes to M&G's approach M&G will communicate these to you.

If you have any questions or require further detail regarding this, please contact your usual M&G contact.

## APPENDIX 1

### Part 1 - MNMBs

Other MNMBs that MAGIM receives or may receive in connection with the provision of portfolio management services to clients:

- i. research that is received so that the firm may evaluate the research provider's research service, provided that:
  - o it is received during a trial period that lasts no longer than three months;
  - o 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; and
  - o 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;
- ii. research on listed or unlisted companies with a market capitalisation below £200m, provided that it is offered on a rebundled basis or provided for free;
- iii. written material that is made openly available from a third party to any firm wishing to receive it or to the general public;
- iv. corporate access services which relate to listed or unlisted companies with a market capitalisation below £200m in accordance with (ii) above; or
- v. any other non-monetary benefit deemed by the FCA to be an MNMB under its rules.

### Part 2 - Research Items

Other types of research material which qualify as an MNMB which MAGIM and/or a UK/EU investment manager, to whom investment management has been delegated to, may receive:

- i. written material that is made openly available from a third party to any firm wishing to receive it or to the general public.

### Part 3 – AIFM MNMBs

Other acceptable AIFM MNMBs MAGAIM may accept where reasonable, proportionate and of a scale that is unlikely to influence MAGAIM's behaviour in any way that is detrimental to the interests of the AIF:

- i. free sample research provided for a limited trial period where:
  - o the trial period lasts no longer than three months;
  - o 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
  - o the research provider offering the free trial has no existing relationship with the recipient firm for the provision of research or execution services.
- ii. research on listed or unlisted companies with a market capitalisation below £200m, provided that it is offered on a rebundled basis or provided for free;
- iii. written material that is made openly available from a third party to any firm wishing to receive it or to the general public;
- iv. corporate access services which relate to listed or unlisted companies with a market capitalisation below £200m in accordance with (ii) above; or
- v. any other non-monetary benefit deemed by the FCA to be an acceptable AIFM MNMB under the AIFM Inducement Rules.