



Liberating the Investment Process:

Transitioning from Research via P&L



UK UCITs
Transition Playbook



EXECUTIVE SUMMARY

Why The UK UCITs Transition Matters Now:

The Opportunity: Guarantee access to critical research by removing market risk from research budgets.
Level the playing field with US managers.
Prepare the ground for AI integration into the investment process.

The Challenge: Meeting FCA guardrails requires a sophisticated governance, budgeting/compliance infrastructure designed to demonstrate to asset owners how research spending contributes to their return objectives.

The Imperative: The FCA considers this a “significant change” requiring FCA approval and UCITs fund notification. Determining the correct sequencing and demonstrating a clear framework for FCA guardrail implementation is central to regulatory approval.

Requirements:

- Written Research Valuation Policy
- Mandate-Level Research Budgets
- Demonstrable and fair research cost allocation process and cross-subsidization solution
- Research Benchmarks
- Disclosure and Reporting

Solution: Frost UK UCITs Research Transition Playbook

ACHIEVING A SUCCESSFUL RESEARCH FUNDING TRANSITION

Establishing Priorities:

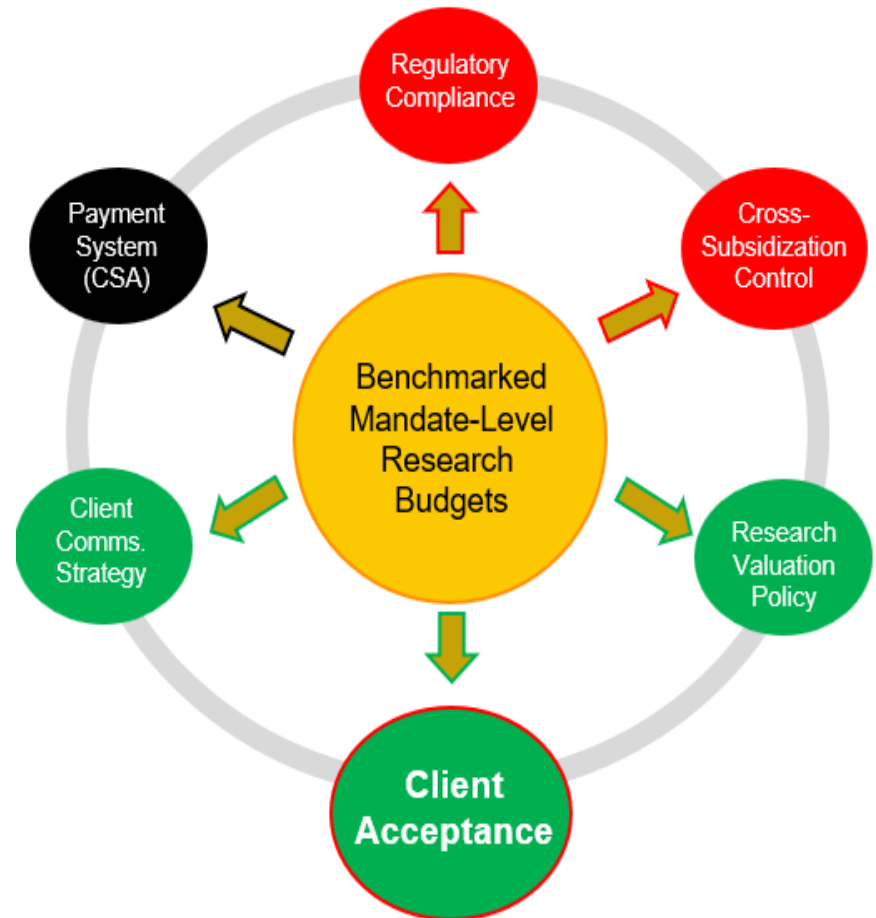
The success of manager research funding transition programs is defined by asset owner acceptance of manager research charges.

What do asset owners care about?

- Mandate-Level Budgets
- Cross-Subsidization Control
- Strategy Benchmarking
- Fair allocation of research costs.

Prioritizing Key Process Components:

- Benchmarked, Mandate-Level Research Budgets are the fulcrum around which the entire process revolves.
- Asset owners don't care which CSA payment system managers use.
- **But they do care that research payments are fair and transparent.**



PS25/4 SPECIFIC PROVISIONS



Policy Statement

PS25/4




UCITs/AIFMD

<https://www.fca.org.uk/publication/policy/ps25-4.pdf>

Pages 6/7

- Establish written policies on their approach to joint payments.
- Stipulate the methodology for how the research cost will be calculated and identified separately within total charges for joint payments.
- Establish a research provider payment allocation structure.
- Set budgets for the purchase of research with joint payments.
- Allocate the cost of research fairly to any funds they manage where the budget applies.
- Provide disclosure on joint payments.
- Assess the price and value of research periodically. Value will have to be assessed on a fund-by-fund basis.
- Be responsible for the administration of the accounts for purchasing research with joint payments.

INTERNATIONAL PERSPECTIVE

	 PS 25/4	 EU Listing Act	 CII/ CFA Inst.*
Client Consent for Research Charge	No	No	No
Ex-Ante Disclosure of Client Research Charge	Yes	Yes	Recommended
Written Research Valuation Policy	Required	Implied	Recommended
Research Payment Account (RPA)	No	No	No
Cross-Subsidization Solution	Required	Implied	Recommended
Research Benchmarking	Required	Implied	Recommended
	Gold Standard: Compliant Everywhere		

* Council of Institutional Investors/
CFA Institute Research Transparency
Recommendations to the SEC

US ASSET OWNER REACTION TO UK/EU CLIENTS GETTING A “FREE RIDE”

CII/CFA Research Transparency Standards



US Asset Owner Reaction to post MiFID II Differential Research Payments:

**Updated:
March 2023**



Recommendations to the SEC

US Asset Owners OK with paying for research - as long as:

- Client/fund-level research spending disclosure
- No fund research cross-subsidization.
- *Recommended this be made a condition of using client money under 28 (e)*

Council of Institutional Investors ~ 150 Large US Pension Funds/Foundations/Endowments*

* Representative

Public Sector

- CALPERS
- CALSTERS
- State of Florida
- New York Common Fund
- Ohio Public Employees
- State of Wisconsin
- Texas Teachers

Corporate

- Apple
- Bank of America
- Coca-Cola
- ExxonMobil
- Johnson & Johnson
- Microsoft
- Proctor and Gamble

Unions/ Foundations

- AFL-CIO
- American Federation of Teachers
- Communication Workers of America
- Teamsters
- Service Employees Union
- United Auto Workers
- University of California Regents

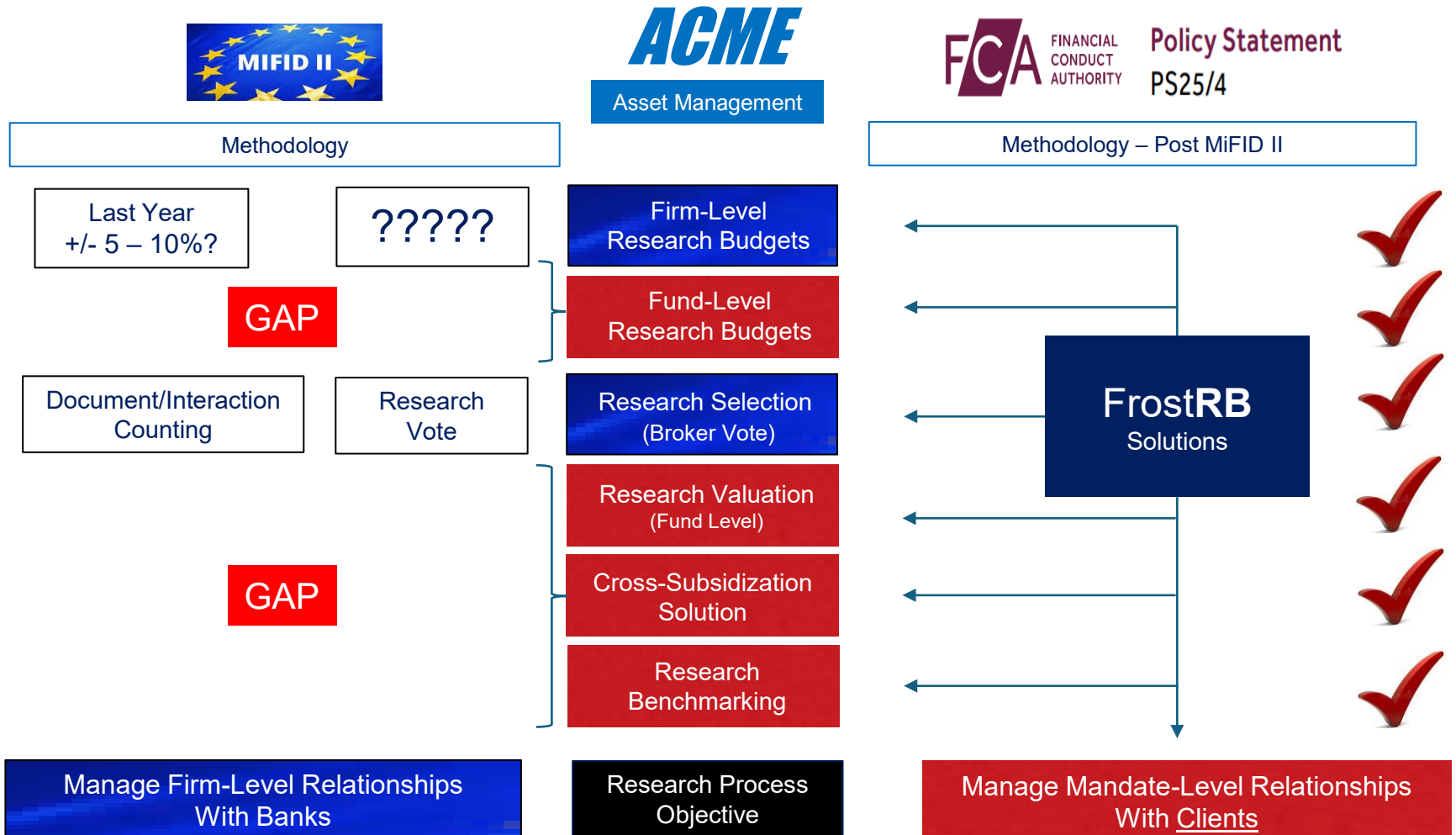


Policy Statement
PS24/9



EU Listing Act

PROCESS ADJUSTMENTS FOR P&L MANAGERS



UK UCITS TRANSITION SEQUENCE



Policy Statement
PS25/4

Requirements

Written Research
Valuation Policy

Fund-Level Budgeting

Cross-Subsidization
Control

Fund-Level Benchmarking

Fair Allocation of Research
Costs Between Clients

Sequence:

1. FCA Approval
2. 60 Days Advance Notice to Funds

FCA Regulatory Status : “**Significant Change**” requiring:

Risk: Inadequate preparation for the FCA Application



- Because these guardrails are binding rules, a manager that cannot substantively evidence them if questioned (e.g. no robust valuation methodology, weak cross-subsidization controls), would risk the FCA refusing or delaying approval, or later supervisory challenge. Managers therefore need the evidence ready, even if not all of it is physically filed with the application.

Bottom Line: Managers should decide *how* they are going to meet these guardrails (even if not fully implemented) *before* filing the application with the FCA.

Solution?

Written Research
Valuation Policy



Strategy Research
Benchmarking

To Accompany
FCA Application

WRITTEN RESEARCH VALUATION POLICY

Written Policy on Joint Payments that:

Describes the firm's approach to joint payments and how the firm will ensure that:

- It sets and monitors a research budget
- It describes oversight arrangements for research budgeting and joint payments
- It describes client disclosure of research budgets
- It describes the process for assessing the value and quality of research
- It can demonstrate that client research charges are reasonable versus peers
- It can demonstrate that client research charges are commensurate with benefits received
- Research charges are allocated fairly between funds and clients
- There is a mechanism for controlling cross-subsidization

The Frost UK UCITs transition playbook automatically generates this documentation adjusted for the Manager's investment process and client/product sets.

FROSTDB RESEARCH DATABASE: OPTIMIZING CAPITAL ALLOCATION



Research/ESG via P&L or Client Money

- How do we compare to our peers
- *and managers using client money?*
- Are our strategy budgets competitive?
- Crucial data for internal budgeting.



Are managers giving their investment teams the opportunity to be globally competitive?

* Indicative Categories

Global	US	Europe	UK	EM	Asia	Sectors
Global Equities	US Equities	Emerging Europe	All Companies	CEE	Asia Equities	Biotech
Global Large Cap.	US Large Cap	Equity Income	Smaller Companies	EM Asia	Asian Ex-Japan	Commodities
Global Small Cap	US Mid-Cap	Europe ex-UK	Equity Income	EM Small Cap	China	Consumer Cyclicals
Global Mid Cap	US Small Cap	France	Direct Property	Global GEMS	China Small Cap	Consumer Staples
Global Growth	US Large Cap Growth	Germany	Value	Latam	Equity Income	Energy
Global Value	US Large Cap Value	Italy	Growth	MENA	Hong Kong	ESG/SRI
Global Financials	US Value	Netherlands			India	Financials
Global Equity Income	US Growth	Nordics			Indonesia	Healthcare
	US Small Cap Growth	Pan-Europe			Japan	Industrials
	US Small Cap Value	Spain			Japan Small Cap	Media
	US Core	Switzerland			Korea	Precious Metals

RESEARCH BENCHMARKING ANALYSIS

FrostDB Research Spending Data

Summary Comps

Fund Category

Number of Managers:

???

Number of Funds:

???

AUM (\$ Millions)

Max: 74,730

Min: 3

Average: 2,312

Median: 844

Bps of Research Budget (Client Money)

Max: ???

Min: ???

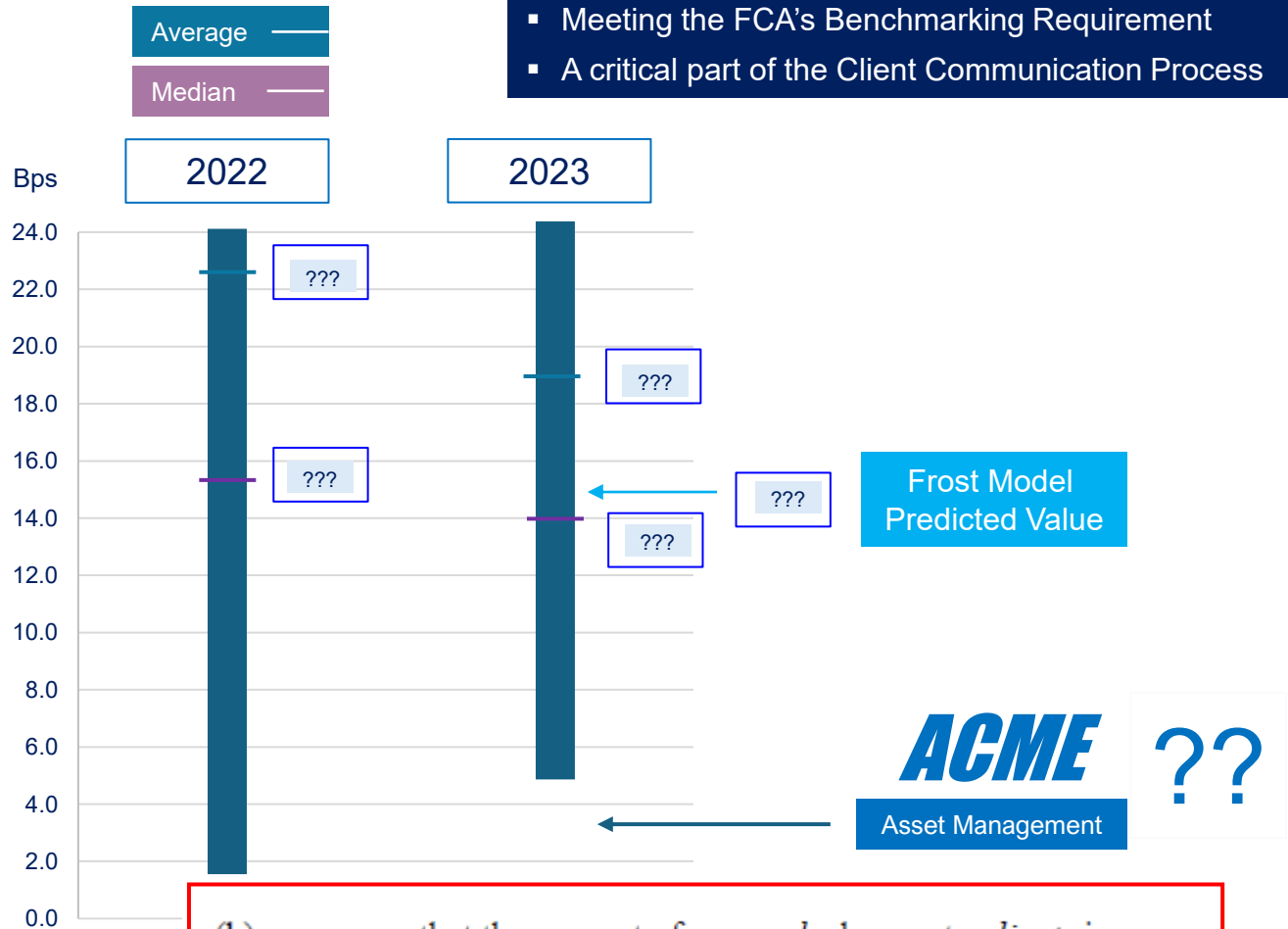
Average: * ???

Median: ???



* Weighted Average

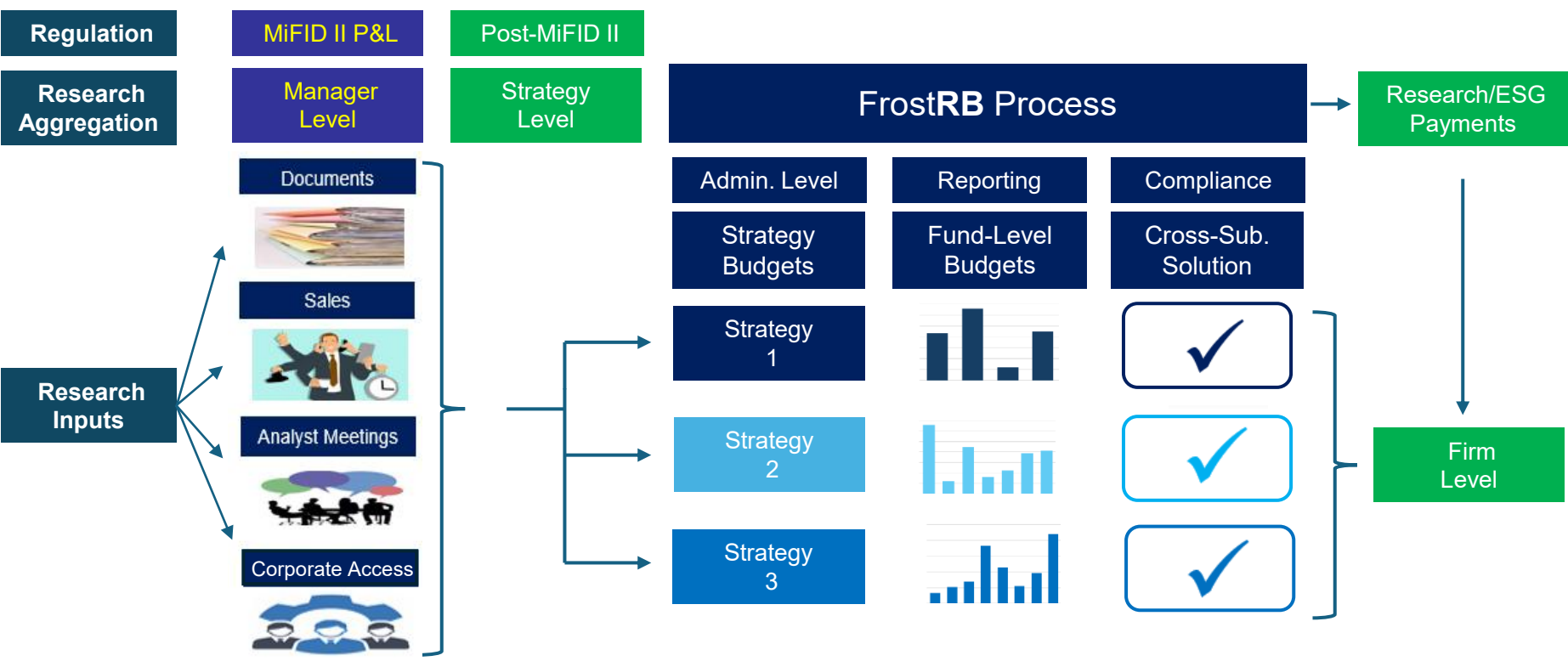
- Meeting the FCA's Benchmarking Requirement
- A critical part of the Client Communication Process



(b) ensure that the amount of research charges to clients is reasonable compared with those for comparable services: 11

RESEARCH TRANSITION: STRATEGY/FUND-LEVEL RESEARCH VALUATION

ADMINISTRATION: STRATEGY LEVEL – ALLOCATION: FUND-LEVEL – PAYMENTS: FIRM-LEVEL



Meets (or exceeds) research regulation – *everywhere.*

DEMONSTRABLE CROSS-SUBSIDIZATION CONTROL

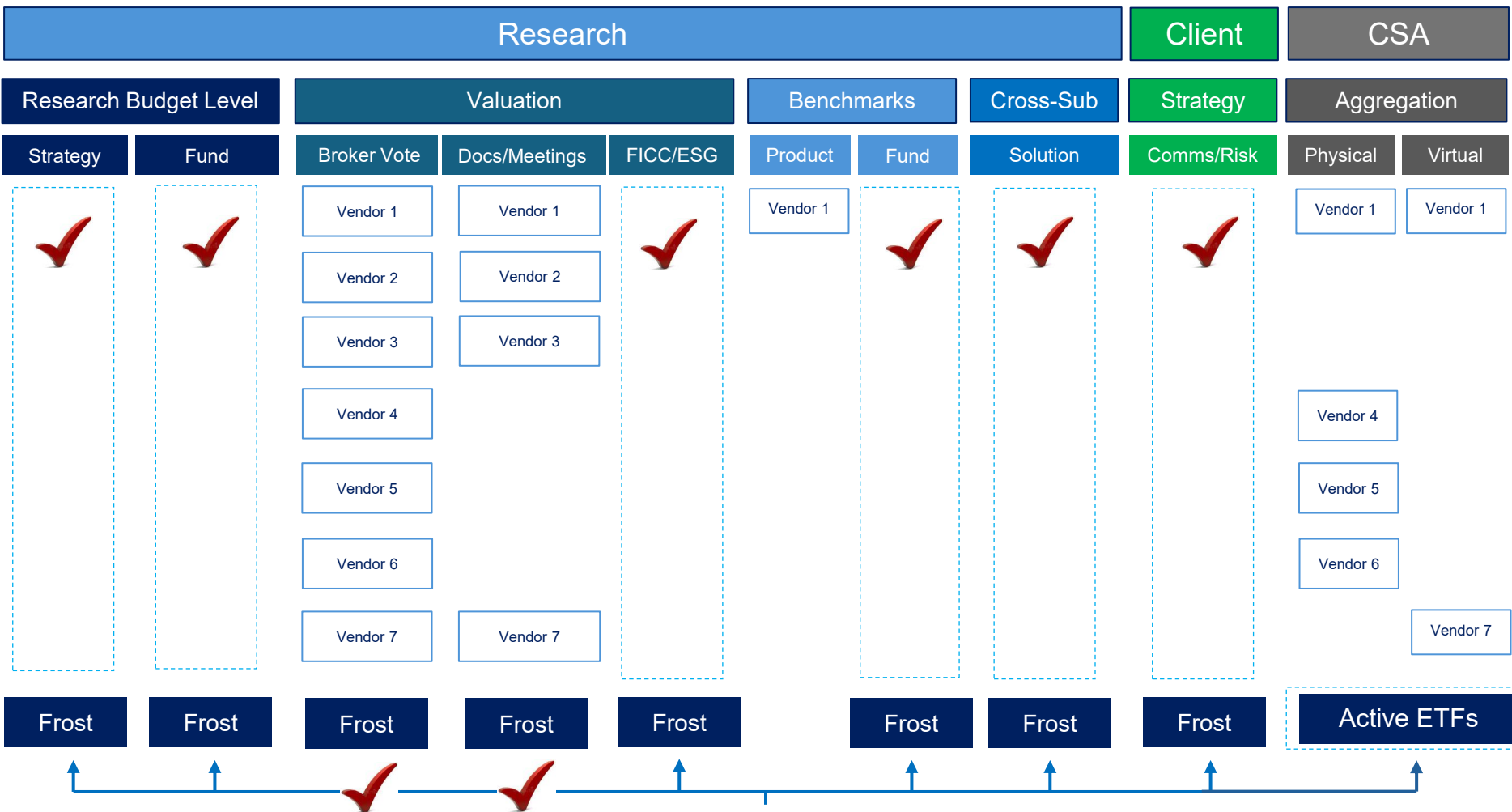
Research Producer
Each Fund

Producer ▲	Fund ▲	FY 2025
☐ Bernstein (F)		
	Emerging Mkts Growth	81,767
	Equity Income	46,946
	ESG Equity Leaders	60,228
	ESG Multi-Asset	20,069
	Global Growth	330,892
	Global Property	207,914
	Multi-Asset Hedged Return	73,920
	Technology Leaders	171,299
	Thematic Equities - Global	141,657
	Unconstrained Global Bonds	12,359
	Bernstein (F) Total	1,147,050

Pays for research separately.



RESEARCH/CSA COMPONENT LANDSCAPE: OPTIMIZATION



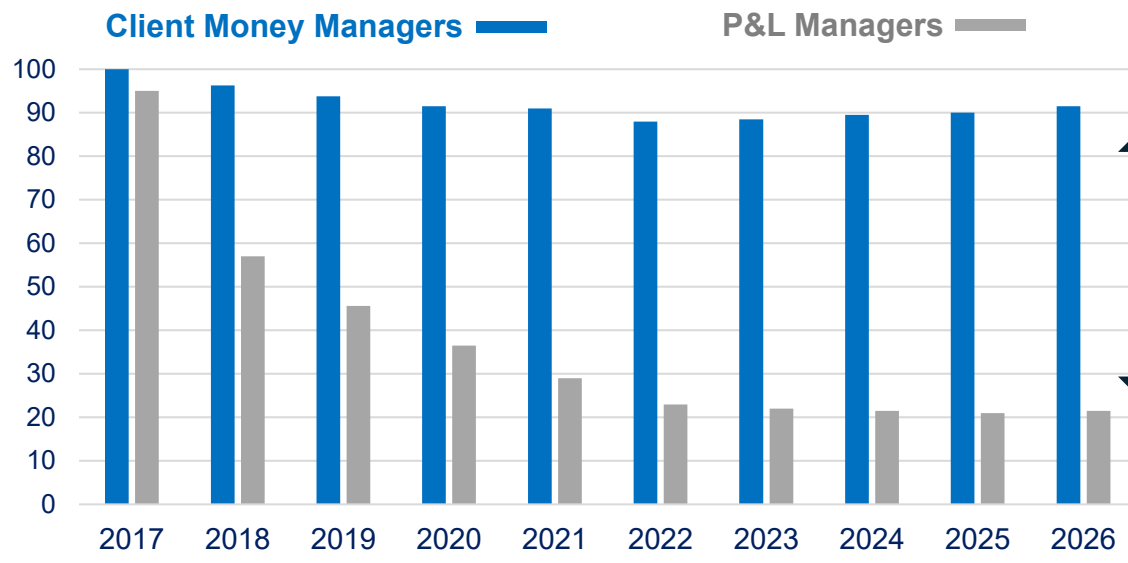
“Process Gaps” PS24/9 & PS25/4 Research Rules - Frost Unique Capabilities

TRANS-ATLANTIC INFORMATION/DATA GAP: AI IMPACT

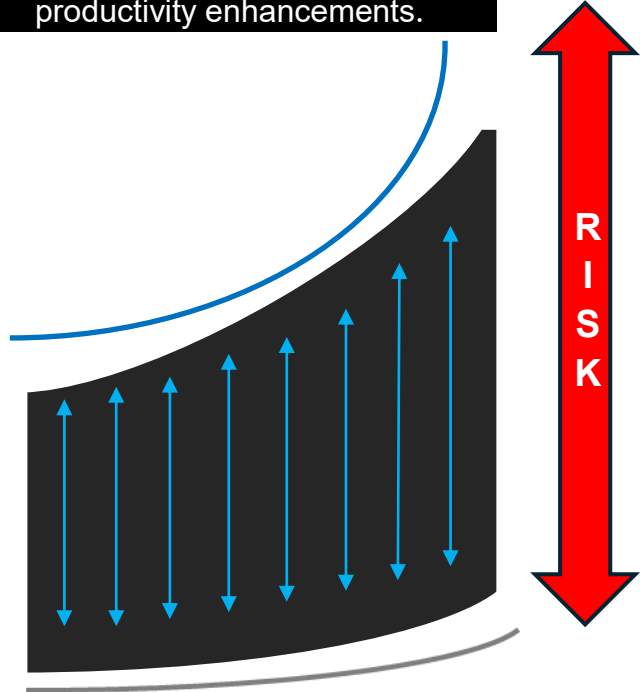


Existing AI applications for manager investment processes are already yielding startling productivity enhancements.

Research Spending: Indexed at 100 in 2017 (Pre-MiFID II)*



RISK



AI Era

MiFID II Era

* Frost Consulting Estimates

REGULATORY/PRODUCT MATRIX

The Frost platforms and databases will allow managers to meet the following standards:

- **US Funds:** Section 28 (e) and the Council of Institutional Investors/CFA Institute Research Transparency Standards
- **UK Pension Funds/Seg. Mandates:** FCA PS24/9 and emerging best practices from the UK Pension Regulator (TPR)
- **UK UCITs Funds:** FCA PS 25/4
- **EU Seg. Mandates:** EU Listing Act
- **EU UCITs Funds:** (Luxembourg/Ireland): EU Listing Act plus CBOI & CSSF

P&L TO CLIENT MONEY: SUCCESSFUL TRANSITION PLAYBOOK

Holistic, Firm-Wide Approach

Frost works with:

- Management Team** - Overall Commercial Strategy
- Investment Teams** – Strategy Budgets/Configuration
Assignment of Investment Professionals
- Client Service Team** – Client Communication Strategies
Risk Mitigation Strategies
Research Spend Benchmarking
- Admin. Team** – FrostRB System Implementation
- Trading Team** – Research Payment Mechanism
- ESG/Stewardship Team** – ESG input fund attribution

ACME

Asset Management



FUTUREPROOF



Why Managers Choose Frost for PS25/4 Transitions

✓ **Faster FCA Approval**

✓ **Lower Compliance
Risk**

✓ **Defensible Budgets**

✓ **Operational
Efficiency**

✓ **Global Future-
Proofing**

✓ **Enhanced Research
Access**

APPENDIX: SPECIFIC PS25/4 REQUIREMENTS



Policy Statement PS25/4

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Firms will be required to allocate the cost of research fairly to the relevant fund or funds where the research budget applies to more than one fund.

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The guardrails will provide controls on the use of joint payments and mitigate the risk of investors in funds cross-subsiding other categories of investors.

P 18

The final rules will require firms to establish written policies for each fund that purchases research using the joint payment option. The written policies must specify governance, decision-making and controls, including how research will be maintained separately from trade execution. This could be one set of standard written policies that the firm will establish on the joint payment option across fund ranges and could be appropriately modified and adopted for a particular fund range or fund structure.

APPENDIX: SPECIFIC PS25/4 REQUIREMENTS

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Fund managers will need to assess the value of research purchased for each fund they manage so that each fund can benefit from research that is relevant to the fund. We do not expect every fund to purchase the same research independently. We acknowledge that research is the collective set of analysis informing fund managers' investment decisions and the consumption of research is not necessarily attributable to each fund.

Where research budgets are set at an individual fund level, the fund can also contribute towards a wider pool of research with other funds that have similar investments. The costs of research should then be allocated fairly between funds that contributed to the wider pool of research.

We have clarified that firms should determine a cost allocation level that is appropriate to its business model. Where a budget applies to more than one fund and the firm's MiFID investment services, the approach should be reasonable and its outcome fair so that relative costs incurred are commensurate with the relative benefits received by the fund, funds or other investment mandates.

APPENDIX: SPECIFIC PS25/4 REQUIREMENTS

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The value of research might differ between funds taking into consideration that not all research contributes to investment decisions to the same extent. Under existing fund rules, fund managers are required to evaluate the charges to each fund in relation to the fund performance and benefits received, and benchmark with comparable services provided to unitholders. Existing rules on the assessment of value are an essential safeguard ensuring that authorised funds are not paying too much for investment research. They should prevent one fund from materially subsidising another fund.

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