

# Hyperion Asset Management Limited Brokerage Allocations (Soft Dollar Dealing) and Adviser Commission Policy

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## Document Control

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## Key terms

<b>Alternative Brokerage Arrangement</b>	Includes arrangements between Hyperion and Brokers for the provision of any goods or services that are beyond goods and services produced and supplied by the Broker and directly linked to trading activity.
<b>Best Execution</b>	Involves obtaining the most favourable on-going total cost for execution through assessing brokerage, spreads, market impact and speed of transacting with respect to the size and complexity of trades.
<b>Broker</b>	Broker refers to an agent who handles client orders for purchase and sale of securities, commodities, or other property. The provision of this service attracts brokerage and/or incurs a spread.
<b>Brokerage</b>	Brokerage refers to the fee levied by the Broker for executing purchases or sales of securities as an agent.
<b>Execution</b>	Execution refers to services provided by a Broker in arranging and settling a transaction or series of transactions initiated by the Investment Manager.
<b>Soft Dollar Dealing</b>	Refers to the allocation of commissions, arising from share trading, toward the acquisition of goods and services that will assist in the provision of investment services to investors.
<b>Research</b>	Research refers to the production of information that is capable of adding value to investment or trading decisions by providing new insights that inform an Investment Manager when making such decisions about investors' portfolios. By way of illustration, this can include economic analysis, recommendations and forecast data.

# 1. Introduction

## 1.1 Regulatory and policy background

The Corporations Act 2001 requires all licensees to have adequate arrangements for management of conflicts of interest which arise in relation to the provision of financial services by the licensee.

Further, Hyperion has a fiduciary duty to act in the best interests of investors in making investment decisions on investors' behalves. Hyperion seeks to engage third parties who add value to its processes and to avoid conflicts that may arise from certain Alternative Brokerage Arrangements.

This policy is consistent with the standards set out in *IFSA Guidance Note 10: Brokerage Arrangements* and outlines the methodology used by Hyperion in selecting Brokers, allocating trades and accepting other Broker services.

## 2. Brokerage allocation

### 2.1 Broker Panel

Hyperion utilises a number of Brokers (the 'Broker Panel') to execute trades for its portfolios. The purpose of the Broker Panel is to ensure Hyperion receives premium support and data, and Best Execution by efficiently allocating trades to Brokers whilst receiving broad data feeds.

### 2.2 Broker Ratings

Each member of the Broker Panel is assessed against a defined set of criteria and assigned a score from 1 to 5 in each category, with a score of 3 being considered as in line with the peer group. (See Appendix A for an outline of the Assessment Criteria). The score of 1 to 5 is then multiplied by the relevant percentage weighting to arrive at a percentage score for that criteria item. The Broker Ratings are determined from the total percentage score achieved by the Broker and are split into three categories:

- (1) Tier One: score of 65% or above;
- (2) Tier Two: score between 40% and 59%; and
- (3) Tier Three: score between 30% and 40%.

The Broker rating dictates the maximum percentage of the total value of all trades that can be allocated to a particular Broker within each quarter, to a total of 90% of the Broker allocation, with 10% left floating to ensure there is enough commission to ensure Best Execution.

#### Exceptions:

In order to fully utilise the Broker Panel, allocation of the remaining trades (the 10% floating allocation) may be placed in a way that does not comply with the Broker allocation methodology. In this instance, the Hyperion Trader must retain a record as to whom this trade was allocated (Tag File) and who requested the Tag and the reason for the Tag.

## **2.3 Monitoring of brokerage allocation**

Hyperion monitors allocations to the Broker Panel and associated Broker ratings in arrears on a monthly basis as part of the Hyperion Investment Committee meetings. This enables Hyperion to review the performance of the Broker Panel based on the assessable criteria and effect any adjustments as required.

## **2.4 Broker service arrangements**

Hyperion uses the following Broker arrangements to ensure both Best Execution and the receipt of value add Research.

### **2.4.1 Standard full service brokerage**

Standard full service brokerage covers the provision of Broker produced and supplied goods and services that are directly linked with the investment process.

Hyperion uses the following Broker produced goods and services:

- (a) Broker Execution only; and
- (b) Broker Execution with in-house Investment Manager support services including Broker Research.

The receipt of these services from Brokers are acceptable as the services are directly related to the provision of investment services to investors.

### **2.4.2 Acceptable Alternative Brokerage Arrangements**

Alternative Brokerage Arrangements may include agreements between investment managers and Brokers that involve the allocation of certain commissions towards the purchase of third party Research and software that assists in pre-trade analysis.

Hyperion does enter into Alternative Brokerage Arrangements of this nature which include the use of third party Research. Hyperion considers these Alternative Brokerage Arrangements to be acceptable as they provide a direct benefit to the Hyperion investment process.

### **2.4.3 Generally unacceptable Alternative Brokerage Arrangement**

Alternative Brokerage Arrangements which consist of Broker produced and supplied or Broker purchased goods and services that are not directly linked with the investment process and are unlikely to assist in the investment process are considered to be generally not acceptable under IFSA Guidance Note 10.

Examples include:

- (a) services relating to the valuation or performance measurement of portfolios;
- (b) market data available from data service providers;
- (c) subscriptions for publications;
- (d) computer hardware;
- (e) free or subsidised office space;
- (f) staff remuneration;
- (g) paid travel, accommodation, and entertainment costs; and

(h) costs associated with attending conferences and seminars.

Hyperion does not enter into these types of Alternative Brokerage Arrangements.

### **3. Adviser commission payments**

Adviser commission payments refer to certain payments by an investment manager to financial advisers which are designed to incentivise the sale of the investment manager's product by the financial adviser. These may be structured within a product fee structure (ie. paid out of the relevant fund) or paid directly by the investment manager out of their fee.

Hyperion considers the fee arrangements for its products on a product by product basis and may pay adviser selling fees as determined by the Managing Director, and in accordance with the disclosure provisions set out below.

## **4. Monitoring and oversight**

### **4.1 Procedures**

Trading and therefore Broker allocations are driven by Hyperion's Investment Process. The allocation to Brokers and resultant receipt of associated goods and services are used to support Hyperion's proprietary investment process with the end result being the creation and review of its model portfolios which are consistent across client portfolios.

From time to time, Hyperion may also use Wilson HTM Ltd as Broker in its ordinary course of business. Wilson HTM is a related party of Hyperion, however Hyperion contracts with all parties on standard commercial terms.

The Managing Director approves all third party agreements in order to manage any potential conflicts of interests.

Any offer of incentives set out in paragraph 2.4.3 must be reported to the Managing Director of Hyperion. It is the ultimate responsibility of the Managing Director to ensure all Hyperion staff conduct themselves in accordance with this policy.

### **4.2 Broker Review**

Broker commissions are reviewed monthly by the Hyperion Investment Committee.

### **4.3 Annual Review**

This policy will be reviewed at least annually by Legal and Compliance with any associated changes being approved by the Hyperion Asset Management Limited Board.

#### 4.4 Disclosure

Hyperion adopts the following disclosure practices in relation to this policy:

- (a) This policy is available on the Hyperion website at [www.hyperionam.com.au](http://www.hyperionam.com.au)
- (b) This policy will be made available to investors free of charge upon request together with a disclosure consistent with *IFSA Guidance Note 10*; and
- (c) If there is a significant change this policy, Hyperion will communicate that change to investors in the manner Hyperion would customarily do so.

## APPENDIX A – BROKER ASSESSMENT CRITERIA

Criteria		Weighting	Explanation	Relationship to Performance
<b>Trading</b>	<b>Trading Efficiency / Lines of Stock</b>	<b>16%</b>	The ability to efficiently trade (time and price) given the instructions provided.  The ability to deliver lines of stock.	Directly impacts returns received by the clients through impacting the cost of trading (opportunity and market movement)  Increases the ability of the investment team to establish a position or exit from a position in a more time and cost effective manner.
<b>Research</b>	<b>Company Research</b>	<b>12.0%</b>	The provision, accuracy, relevance, timeliness and delivery of company and industry research.	Superior research that is accurate, relevant and delivered in a timely and user friendly manner benefits the research and portfolio management process.
	<b>Useful Ideas / Information Feedback</b>	<b>16.0%</b>	The provision of company ideas that are aligned with our philosophy and investment process criteria and the provision of market or company information or insight.	Useful Ideas - Improves the effectiveness of the research process by identifying companies that fit the Hyperion philosophy and criteria and may potentially be included within the portfolios. Information Feedback - improves the continuous understanding of a company's business model or market events.
	<b>Industry / Mkt Data</b>	<b>30.0%</b>	The provision of industry and market data including market share splits, industry growth rates and index data.	Improves the understanding of industry dynamics, company positioning, growth potential and assists with the investment research or asset allocation process.
<b>Company Contact</b>	<b>Company Meetings / Site Visits</b>	<b>16.0%</b>	The ability to organise meetings with company management or site visits.	Improves the underlying quality of the investment portfolios by increasing the understanding of each company's fundamentals, industry dynamics and the growth potential. Site Visits provide a greater understanding of company's operations.
	<b>Conference</b>	<b>10.0%</b>	The provision of conferences.	Improves the understanding of industry dynamics and generates investment ideas.
<b>Corporate</b>	<b>Corporate Deal Flow</b>	<b>0%</b>	The provision of access to corporate deals.	Potential to improve the performance of the portfolio by providing access to securities at discounted rates (e.g. wholesale capital raisings).

