

08/10/2021 | Compliance Department

INDUCEMENTS POLICY

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1. INTRODUCTION

Banque de Patrimoines Privés S.A. (hereinafter, the "Bank") has developed its best practices in order to meet the requirements established by the Market in Financial Instrument Directive 2014/65/UE of the European Parliament and of the Council of 15 May 2014 (hereinafter "MiFID II Directive").

MiFID II Directive includes a series of obligations to those entities that provide investment services in relation to the perception and payment of inducements.

Thus, in the preparation of this Inducements Policy (hereinafter, the "Policy"), the following regulatory sources have been considered:

- MiFID II Directive.
- Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU ("Delegated Regulation").
- Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive 2014/65/EU ("Delegated Directive").
- Law of May 30, 2018 on markets in financial instruments.
- Grand-ducal regulation of May 30, 2018 on the protection of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits

The above provisions are collectively referred herein to as the "Applicable Regulations".

The Applicable Regulations amend the inducement scheme established by the MiFID I Directive as it aims in particular at:

- (i) prohibiting the perception of inducements within the framework of discretionary management services or independent advice.

In these cases, it is expressly prohibited to receive fees, commissions or other benefits, whether monetary or otherwise, by a third party or person acting on behalf of a third party, when providing discretionary portfolio management services or independent advice, which the Bank does not provide.

Only minor non-monetary benefits ("MNMBs") may be used to improve the quality of the service provided to the clients, which must remain of a scale that does not give rise to conflicts with the Bank's duties to act honestly, fairly and professionally in accordance with the best interests of its clients and will not jeopardize the independence of the Bank.

- (ii) increasing transparency obligations *vis-à-vis* the clients in cases in which the Bank receives or pays inducements to third parties.

2. OBJECTIVE OF THE POLICY

This Policy specifies a set of rules and conditions additional to those established under the Conflicts and Interest Policy and Gifts and Entertainments Policy of the Bank, being complementary to it, not being substitutive or alternative one to another.

The purposes of this Policy are to:

- define the principles established by the Bank for the identification of inducements and the analysis on its nature; and
- define the general principles of the Bank for the communication to clients of the identified inducements.

3. SCOPE OF APPLICATION

This Policy is applicable and mandatory for the Bank for the provision of investment and/or ancillary services as well as for all employees and agents of the Bank, who carry out directly and indirectly activities related to the provision of investment and/or ancillary services. In this sense, all employees of the Bank, as well as their agents, have the duty to know, comply and apply this Policy.

Failure to abide by the provisions of this Policy may lead to disciplinary actions, up to (and including) dismissal.

4. INDUCEMENTS GENERAL PRINCIPLES

The inducement regime applicable under MiFID II is regulated as follows:

INDUCEMENTS REGIME UNDER MiFID II					
SERVICE	<i>Independent Advice</i>	<i>Discretionary Portfolio Management</i>	<i>Non-Independent Advice</i>	<i>Reception and Transmission of Orders</i>	<i>Execution</i>
INDUCEMENTS RECEIVED	Forbidden <input type="checkbox"/> Exception: MNMBs can be perceived if: a) disclosed to the client; b) do not interfere with the duty for the Bank to act with honesty, impartiality and professionalism in the best interest of its clients.		Allowed <input checked="" type="checkbox"/>	As long as: a. disclosed to the Client; b. increase the quality of the service provided to the client; and c. do not harm the fulfilment of the obligation of the Bank of acting with honesty, impartiality and professionalism in the best interest of its clients.	
INDUCEMENTS PAID	Allowed <input checked="" type="checkbox"/> As long as: a) disclosed to the client; b) increase the quality of the service provided to the client; and c) do not harm the fulfillment of the obligation of the Bank of acting with honesty, impartiality and professionalism in the best interest of its clients.				

For the purposes of this Policy, inducements shall refer to payments and other benefits provided to, or received from, third parties, other than the clients, in the context of providing investment services and ancillary services. Inducements can be monetary (e.g. in the form of fees, commissions, rebates, discounts and other monetary benefits) or non-monetary (e.g. in the form of gifts, entertainment, research, access to IT software and other non-monetary benefits).

The Bank does not currently provide investment advice.

As regards reception and transmission of orders or an ancillary service, the Bank will not pay or charge fees or commissions to a third party, nor will provide or receive any non-monetary benefit of a third party in relation thereto, unless payment or benefit:

- has been designed to improve the quality of the relevant service provided to the client;
- do not harm the fulfillment of the Bank's obligation to act with honesty, impartiality and professionalism, in the best interest of its clients; and
- is justified by the provision of a continuing benefit to the client in relation to a continuous inducement and is disclosed to the client.

Certain payments and non-monetary benefits do not constitute inducements and, as such, they do not fall in the scope of this Policy. These are:

- the payments provided to, or received from, a client or any party acting on behalf of a client;
- proper fees: payments or non-monetary benefits, which enable or are necessary for the provision of investment services, such as custody costs, settlement and exchange fees, regulatory levies

or legal fees, and which by its nature cannot give rise to conflicts with the Bank's duties to act honestly, fairly and professionally in accordance with the best interests of its clients.

The existence, nature and amount of the payments or benefits of the allowed received or granted inducements must be disclosed to the client before the provision of the service. Nevertheless, when such amount cannot be determined, the method of calculation of that amount shall be clearly disclosed to the client in a complete, exact and understandable manner before the provision of the investment service or ancillary service.

It is a general principle under this Policy that the Bank guarantees that in its business relations, and in particular in those services that may be affected by the prohibitions detailed in this Policy, no fees or commissions will be received or paid, nor will receive or will provide non-monetary benefits that may prevent its action in the best interest for its clients.

In any case, any inducement that the Bank may receive in relation to the provision of independent advice (in case it may be provided at any time) or in the provision of discretionary portfolio management services, shall be deemed not permitted and, in case of being perceived, will be transferred as soon as possible to the final client.

4.1. Monetary inducements

The Bank shall not accept and retain any monetary inducements (i.e. fees and commissions) implying the Bank is acting in a way different than the best interest of its clients and with a non-demonstrable quality enhancement of the service. All monetary benefits received that cannot be retained must be passed on to the client in full as soon as possible after receipt and no later than one month after receipt of the benefit.

4.2. Acceptable MNMBs

Commission Delegated Directive 2017/593 sets out the benefits that qualify as acceptable MNMBs as well as further details on returning inducements to clients and disclosure, as follows:

- information or documentation relating to a financial instrument or an investment service which is either generic in nature or personalized to reflect the circumstances of an individual client;
- written material from a third party that is commissioned or paid for by a corporate issuer (or potential issuer) to promote a new issuance by the company, or contractually engaged and paid by the issuer to produce such material on an on-going basis, provided the relationship is clearly disclosed in the material and that the material is simultaneously made available to any investment firm wishing to receive it or to the general public;
- participation in conferences, seminars and other training events on the benefits and features of a specific financial instrument or an investment service;
- hospitality of a reasonable *de minimis value*, such as food and drink during a business meeting or a conference, seminar or the training events mentioned above; and
- other MNMBs which the Luxembourg authorities accept as capable of enhancing the quality of services provided to a client and, having regarded the total level of benefits provided by one entity or group of entities, are of a scale and nature that are unlikely to impair compliance with the Bank's duty to act in the best interests of the clients.

Criteria and reporting of acceptable MNMBs are further detailed in the following sections hereof.

4.3. Criteria to establish the improvement of the quality of service

Subject to legal and regulatory conditions, a non-monetary fee, commission or benefit is deemed to be designed to raise the quality of the relevant service to a client if all of the following conditions are met:

- A. it is justified by the provision of an additional or higher-level service to the relevant client, proportional to the level of inducements;
- B. does not directly benefit the receiving Bank, its shareholders or staff without a tangible benefit to such client;
- C. it is justified by the provision of a continuing benefit to the client in relation to a continuous inducement.

Article 11(2)(a) of the Delegated Directive provides a non-exhaustive list of examples of services that are considered “additional” or of a “higher level”. Apart from the examples involving the provision of non-independent investment advice by the counterparty receiving an inducement, a “higher level of services” may be justified if the client is provided access, at a competitive price, to a wide range of financial instruments that are likely to meet its needs, including an appropriate number of instruments from third party product providers having no close links with the Bank, together with either:

- added-value tools, such as objective information tools helping the relevant client to take investment decisions or enabling it to monitor, model and adjust the range of financial instruments in which it has invested, or
- providing more frequent periodic reports of the performance and costs and charges associated with the financial instruments.

4.4. Not allowed inducements

The distribution of assets in discretionary managed portfolios is done in order to obtain the maximum possible benefit for the client and not in consideration of possible commercial strategies, so when the Bank provides portfolio management services or independent advice (in case it may be provided at any time), it will not accept nor retain fees, commissions or other monetary or non-monetary benefits paid or provided by a third party or by a person acting on behalf of a third party in relation to the provision of the service to client.

When providing any investment service (including discretionary portfolio management and independent advice (in case it may be provided at any time)), the Bank may accept MNMBs that may serve to increase the quality of the service rendered to the client and whose scale and nature are such that it cannot be considered as affecting the fulfillment by the Bank of the obligation to act in the best interests of its clients. However, such MNMBs must be disclosed clearly to the client as generic information included in any relevant investment service or ancillary service confirmation or confirmation with that client.

If the Bank has received an inducement not allowed by the provision of discretionary portfolio management or advice (not independent) (in case it may be provided at any time), the client will be informed of the mechanisms that the Bank will use to transfer the fees, commissions or monetary benefits received by the provision of the investment service or the ancillary service.

The appropriate procedure to transfer to clients the inducements not allowed will be through a bank transfer to the client's account, which will be accompanied by a communication to the client that includes the amount of the amount paid to the client.

5. ESSENTIAL MEASURES FOR THE IDENTIFICATION, RECORD AND JUSTIFICATION OF INDUCEMENTS

5.1. Inducements identification procedure

The Bank's Client Acceptance Committee ("CAC") will be responsible for identifying and assessing the fees, commissions or benefits that will be paid or received in connection with the provision of investment services or ancillary services to clients in the framework of the approval process of a new business relationship, or the review of an existing business relationship, in order to adequately and proportionately justify if those fees, commissions or benefits may be regarded as permitted inducements.

The sales function (employees of the Wealth Management department and Depository bank) will be responsible to demonstrate, based on appropriate documentation, that the inducements to be paid / received meet the conditions as defined herein and the Compliance function (the Chief Compliance Officer or his/her designated backups) will issue recommendations in relation thereto. Following the foregoing investigations, the CAC will decide as to whether the inducements are permitted or non-permitted. In cases there are not, in particular when it is concluded that the inducements do not represent an improvement of the service, the relevant instructions will be given by the CAC to transfer the amount as soon as possible to the final client(s).

In the event that an already verified inducement changes its conditions or characteristics and becomes non-permitted, it will be suspended immediately by the Bank until the CAC has decided otherwise following a new verification to be performed by the Sales functions and recommendations issued by the Compliance function. If, as a result of the verification process, it is concluded that the new conditions/circumstances alter the allowed character of the inducement, the CAC shall decide that the concerned inducements are no more permitted and shall be returned to the final client(s).

The identification of each type of inducement by the CAC shall integrate the analysis of its justification in consideration of the requirement that such inducements shall only be considered permissible, *provided* they are designed to raise the quality of the relevant service rendered to the client.

The Compliance function of the Bank will be responsible for establishing a Permitted Inducement Registry that will integrate the following information:

- a) The inclusion of an internal list of all non-monetary fees, commissions and benefits paid or received by the Bank from third parties in connection with the provision of investment or ancillary services;
- b) Justification of how the non-monetary fees, commissions and benefits paid or received by the Bank or proposed to be used, increase the quality of the services provided to the relevant clients,
- c) Indication of the measures adopted in order not to impair the Bank's obligation to act honestly, fully and professionally in the best interests of its clients.

The aforementioned information is gathered in Annex I of this Policy.

The assessment and approval process may be documented in Annex II of this Policy.

5.2. Procedures to inform clients about inducements

In relation to payments or benefits paid to or received from third parties, the Bank shall disclose to the client the following information:

- i. Prior to the provision of the investment or ancillary service in question, the Bank will disclose to the client in the pre-contractual information sheet and in the orders the information regarding the benefit in question; the MNMBs may be described in a generic way, however, other non-monetary benefits received or paid by the Bank in relation to the investment service provided to a client will be quoted and disclosed separately.
- ii. Where the Bank has not been able to determine before disclosure the amount of a payment or benefit to be received or paid and has instead disclosed to the client the method of calculating that amount, it must also provide its clients with information concerning the exact amount of the payment or the benefit received or paid after. This information must be included in the confirmations of the orders (if possible), and if this is not possible, it must be informed in the first communication sent to the client (quarterly or annual).
- iii. At least once a year, and as long as the Bank pays or receives (continuous) inducements in relation to the investment services provided to the relevant clients, it will inform its clients individually of the actual amount of the payments or the benefits received or paid; the MNMBs can be described in a generic way. This information may be integrated in an annual communication on fees, expenses and benefits that the Bank will provide to the client each year.

If applicable, the Bank will also inform the client of the mechanisms to transfer to the client the fees, commissions or monetary and non-monetary benefits received for the provision of the investment service or the ancillary service.

6. USE OF INDUCEMENTS IN RELATION TO RESEARCH

According to the Delegated Directive, research provided by a third party to an investment firm may be considered as an inducement under MiFID II.

Research will not be an inducement if the investment firm either directly pays for it out of its own resources or from a separate research payment account ("RPA"), which is controlled by the investment firm and which meets a number of conditions. In particular, if an RPA is being used, the RPA must be funded by a specific research charged to the client. In addition, as part of establishing an RPA, the investment firm must set up and regularly assess a research budget and then agree with the client:

- the research charge as budgeted; and
- the frequency with which the specific research charge will be deducted from the clients' resources over the year.

Publication and research received by the Bank are paid for by the Bank and not charged to its clients so that these publication and research do not qualify as inducements. The Bank also receives general financial communication and newsletters, considered as public and hence out of the inducement requirements scope.

As a consequence, the Bank may be considered as receiving no inducements in relation to research.

7. INDUCEMENT PAID TO THIRD PARTIES

The Bank may enter into contractual arrangements with third parties either for enabling the Bank to acquire new clients or for supporting tri-partite relationship between the Bank, its client and a third-party services provider.

The cash flows between the Bank and those third parties will be subject to a detailed and specific analysis at the contractual phase to ensure that should they qualify as inducement, they will be in compliance with those criteria set up in section 4 hereof and will be disclosed to the client as required.

8. LIABILITY, DIFFUSION, UPDATE AND CONTROL OF THE POLICY

This Policy, and any amendments thereto, must be approved by the Board of Directors of the Bank.

The Compliance function of the Bank will be responsible for the drafting of this Policy, its pertinent modifications/updates and any documents annexed thereto that are needed, as a result of normative changes that affect directly or indirectly the content of the same, or as a consequence of the adoption of other internal policies.

The Compliance function of the Bank shall review the content of this Policy at least in case of any change in the applicable regulations and at least every two years.

The Compliance function of the Bank will integrate in its reporting to the Board of Directors information about the application and result of this Policy, in line with the controls as defined in the Compliance monitoring plan. Such reporting shall be realized at least annually.

Any deviation to this Policy must be escalated to the Compliance function of the Bank.

9. LEGAL REFERENCES*

Market in Financial Instrument Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014
Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU
Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive 2014/65/EU
Law of May 30, 2018 on markets in financial instruments
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*non exhaustive

ANNEXES

Annex I: List of inducements received for *Banque de Patrimoines Privés* of third parties in relation with investment services provided. Updated

Monetary Inducements or non-monetary perceived benefits	Description	Measures to justify the increase in the quality of client service proportional to the benefit obtained	Inducement Calculation Method	Date of Approval by the Client Acceptance Committee
Monetary Inducement	Retrocessions perceived by [-] in relation with the of Collective Investment Schemes under the Agreement [*]	<p>Illustrative example of justification for enhancing the quality of service.</p> <ul style="list-style-type: none"> • The client can access Open Product Architecture (products of entities <i>Banque de Patrimoines Privés</i> Group + Third Parties) • The client receives follow-up of appropriateness (marketing)/suitability (advice) with a minimum annual frequency (which may be lower - semester, quarterly, monthly - depending on the service. • The client has access to information in the Pre-contractual Phase or in the Post- contractual Phase that allows him/her to compare the performance of his investment vs. other similar products. • The client will receive, at least annually, a report (which may be lower according to the level of service). Report of Expenses, Commissions, Costs, Inducements and Investment Evolution, which allows the total cost of the investment to be 	[It must be obtained from the Distribution Agreement or from the Annex of financial terms and conditions]	

		reported and its effect on the profitability of the investment made.		
Non-Monetary Inducements	<p>Conversations about product and markets to the commercial network.</p> <p>Videos and publications in internal or external channels (social, Internet networks) about markets and funds with opinions of the manager.</p> <p>Monthly commercial sheets in French and English.</p>	<p>Illustrative example of minor inducement justification:</p> <p>[Inducement Description] it supposes a purely accessory benefit provided by the Supplier/Issuer of the product/service to the Group, whose performance provision in consideration of its value of market and scale (volume of hours/investment/cost) is limited in comparison with the habitual monetary inducements for this type of relations between the supplier of an instrument and the distributor.</p>	Not Applicable	

Annex II: Inducements Assessment and Approval Sheet

	Tick the box and complete with additional information when it fits		Additional Information (if necessary)
Inducement description	<input type="checkbox"/> Monetary <input type="checkbox"/> Non-Monetary		
Inducement In/Out	<input type="checkbox"/> Payment to a third party <input type="checkbox"/> Perceived of a third party		
MiFID II service/product related	Indicate the Product (category e.g. Structured, Investment funds, Exchange Insurances, Dependent Punctual Advice, Dependent Recurring Advice, Marketing, etc.)		
Inducement calculation system	Explain according to distribution agreement, commercial agreement with the supplier, etc.		
The inducement remains within <i>Banque de Patrimoines Privés</i> (i.e. who pays and receives are entities from the Group)	<input type="checkbox"/> Yes <input type="checkbox"/> No (indicate which type of third party is who pays or who receives the inducement)		
Factors for the acceptance of the inducement	F.1 Justification of the improvement quality of the service / product (indicate that they should meet)	To be detailed:	
	F.2 It does not conflict with the duty to act in the best	<input type="checkbox"/> The subscription of the product/service provided is subject to the suitability / appropriateness test. The subscription of the product/provision of the investment service indicated above, is subject to the Bank's best execution.	

	interests of the clients	<input type="checkbox"/> The Conflicts of Interest Policy is applied, if applicable (e.g. if the inducement remains within the <i>Banque de Patrimoines Privés</i> and the client knows this circumstance). <input type="checkbox"/> There exist controls that ensure that the inducement is not going to influence the conduct of the Bank for the provision of the service/product. <input type="checkbox"/> The inducement, by its nature and amount, is within the market standard (i.e. exists other entities similar to the Bank, in the type of product/service of investment and its amount is within the market ranges). <input type="checkbox"/> The nature of the relationship between the Bank and the third party (who receives or pays the inducements) is or may be a potential source of conflicts of interest or otherwise that should be analyzed in a significant way. <input type="checkbox"/> The inducement does not suppose an over-cost for the client (neither in the fees that s/he supports nor in the pricing of the product / service). The inducement allows to compensate the performance of certain functions/actions by the Bank in the interest of the client (e.g. production of additional product information, specialized selection of product without advice, permanent support to the client on the operation, characteristics, etc. of the product/service).	
Inducement assessment	<input type="checkbox"/> Allowed <input type="checkbox"/> No Allowed		
Areas of the Bank participants in the process of approval	Sales function	Identification	Signature
	Compliance	Identification	Signature
	Client Acceptance Committee	Identification	Signature