



# Research Independence & Conflicts of Interest Disclosure

## 1. Process by which companies are selected for coverage

Decisions about which companies are selected for coverage are made by the Research team, having regard to a range of factors as set out below.

In determining our Research coverage universe, the primary consideration is “investment merit”. This means a company with a sound business model currently (or a path towards this) and reasonable prospects for capital growth and/or income distributions over time. It does not require a company to be currently profitable, but the analyst must form a view that this will occur within a reasonable time frame and achieve a level of sustainability. While the requirement for investment merit is a necessary condition for coverage of ex-ASX100 companies, coverage decisions for all companies will also involve considerations of breadth of coverage and EaP business decisions around optimal resource allocation. Accordingly, if a company is not under EaP coverage, this does not necessarily mean that EaP has formed a view on its investment merit. Initiations and cessations of coverage are published by way of a research report, which includes the reason(s) for doing so.

## 2. Research Methodology applied

EaP takes a fundamental approach to research (not quantitative or technical based) combining ‘top down’ macro-economic factors, relevant industry/sector considerations and ‘bottom up’ company-specific considerations when formulating a view. EaP produces detailed financial models with earnings and cash flow forecasts on all covered operating companies incorporating a fundamental approach. In respect of listed investment trusts and companies, EaP models net asset value, distribution growth and yield. EaP analyses return on capital invested and considers different scenarios which are appraised in the context of current share prices to determine recommendations.

## 3. Conflicts of Interest Management & Research Independence

EaP has an enterprise wide Conflicts of Interest Policy which applies to all employees, inclusive of Research Analysts. EaP defines a Conflict of Interest as any circumstance where some or all of the interest of a group of persons (for example, EaP clients) to whom EaP provides financial services are inconsistent with, or diverge from, some or all of the interests of EaP as a firm or any EaP staff member. This includes all actual, potential or perceived Conflicts of Interest. EaP maintains a Conflicts of Interest register which identifies all actual, potential and perceived Conflicts of Interest, including all relevant management strategies (which may include avoidance, disclosure or other appropriate arrangements as relevant). In a Research context, EaP’s Conflicts of Interests are managed in a number of ways, including:

- Reporting lines for all Research Analysts are independent from other business units to limit any actual or potential for Conflicts of Interest to arise.

- Remuneration arrangements for Research Analysts are not directly or indirectly linked to the specific recommendations or views expressed in published research reports.
- EaP's Research budget (including bonus pool and allocation of resources) is determined by EaP's Senior Management with no input from EaP's Corporate Advisory team. In addition, Corporate Advisory revenue/results are not taken into account when allocating research expenses.
- All publishing Research Analysts disclose all pecuniary interests in all published research reports, and attest to preparing each report in accordance with EaP policy.
- Reports also include other material conflicts (i.e. substantial holdings by EaP staff or related bodies corporate, and/or other corporate relationships with the covered company).
- All staff, including Research Analysts, are subject to EaP's staff trading requirements and restrictions.
- Requirement for all staff, including Research Analysts, to declare any actual, potential or perceived Conflict of Interest to EaP's Compliance team as soon as they become aware of it.
- Adherence to EaP's Gifts and Entertainment policy.
- Adherence to strict physical and electronic information barriers (Chinese Walls) between EaP's Research Department and all other business divisions, including established wall-crossing procedures
- Non-research staff are prohibited from directing or influencing any Research Analyst to publish a research report or direct the views or opinions expressed in a published research report.
- Ongoing compliance training, which includes the handling of Conflicts of Interest and Chinese Walls.
- Restrictions on interactions between Research Analysts and EaP's Corporate Advisory team and companies during capital raising activities.
- EaP has Research blackout periods in place where it is involved in capital raising activities.
- EaP's Corporate Advisory division does not accept mandate agreements which include any obligations or inducements to EaP to initiate research coverage following the completion of a transaction, or to provide Investor Education Research.

## 4. Spread of Research Ratings

EaP's research approach is primarily designed to express a view on the quality and valuation of a company. EaP believes investment performance is derived in building portfolios around high quality businesses at the appropriate price. Given our coverage approach will not see us cover the entire market, our spread of ratings will typically differ from a normal distribution between Positive, Neutral and Negative recommendations. With a focus on investment merit, we would expect our spread of ratings to be generally skewed towards Positive recommendations.

As at 1 March 2019, the spread of equity recommendations (excluding fixed income) for EaP's

research coverage universe (including 118 ASX listed companies and 16 internationally listed securities) was:

- Positive – 47%
- Speculative Buy – 3%
- Neutral – 38%
- Negative – 5%
- Suspended – 7%
- Total number of companies under research coverage - 134

**Note:** Numbers may not sum to 100% due to rounding

## 5. Scope and expertise of the Research service

Please refer to the following section of the EaP website for details regarding the qualifications and experience of each member of EaP's Research team <https://www.evansandpartners.com.au/our-company/our-people/research>