

Client Asset Key Information Document “CAKID”

This document is designed to provide you with summary information on the Client Asset Requirements imposed by the Central Bank of Ireland (“CBOI”). It is important that you also refer to the section in your Terms and Conditions which explains “How we hold your Assets”.

WHAT ARE THE CLIENT ASSET REQUIREMENTS (“CAR”)?

The Client Asset Requirements (“CAR”) have been imposed by the Central Bank of Ireland (“CBOI”) on investment firms that hold client assets. The requirements are imposed under S.I. No 104 of 2015, Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) and the Client Asset Regulations 2015 for Investment Firms.

These Regulations seek to further enhance the processes and controls an investment firm has in place to safeguard and protect client assets.

A copy of CAR and the associated Guidance is available on the CBOI’s website www.centralbank.ie/regulation/clientassetsandinvestormoney. The purpose of the guidance is to assist investment firms to comply with the Client Asset Regulations.

The three main objectives of the client asset regime for investment firms are:

1. The mitigation of the risk of misuse of client assets, including use by the investment firm without consent or contrary to client wishes, whether as a result of maladministration or fraud;
2. Segregation of client and firm assets to ensure that in the event of a firm’s insolvency there will be an expeditious return of available client assets to the clients at the lowest cost; and
3. The maintenance of public confidence in the client asset regime.

The purpose of the client asset regime is to regulate and safeguard the handling of client assets by an investment firm.

KEY FEATURES OF CLIENT ASSET REGULATIONS (“CAR”)

CAR obliges firms that hold client assets to put in place certain safeguards to help protect clients’ ownership rights, including the following:

- ▶ Segregation of client assets from the firm’s assets;
- ▶ Record keeping - to enable the firm at any time and without delay to distinguish client assets from those assets held by the firm;
- ▶ Receiving CAR assurances from the firm’s third parties, before lodging client assets with a third party;

- ▶ Prompt lodgement of all client funds and prompt registration of client financial instruments to designated client asset accounts;
- ▶ Regular reconciliations between the firm's internal systems and the records of third parties that hold client assets on behalf of the firm
- ▶ Daily cash calculations to ensure that the firm's client money resource is at least equal to its client money requirement;
- ▶ On-going counterparty due diligence by the firm;
- ▶ Regular CAR audits by the firm's external auditors, which are reported to the Central Bank;
- ▶ Applying systems and controls that are appropriate to identify risks in relation to client assets and to put in place mitigants to counteract these risks; and
- ▶ Disclosure of certain information to clients.

WHAT ARE CLIENT ASSETS?

Under CAR, client assets mean client funds and client financial instruments, as outlined below.

1. Client funds (including cheques or other payable orders, current and deposit account balances) which are held by the firm or owed to the client (by the firm) on behalf of clients to whom a firm provides financial services but does not include funds which relate exclusively to unregulated financial services. (e.g. direct property investments).
2. Client financial instrument means any financial instrument as defined in the MiFID Regulations and the Investment Intermediaries Act 1995.

CIRCUMSTANCES IN WHICH CAR APPLIES AND DOES NOT APPLY

CAR applies where Davy (hereafter referred to as Davy or "the firm") receives client funds, or holds client financial instruments which have been entrusted to the firm (or its nominee) and in respect of which the firm has capacity to effect transactions.

For Davy clients, generally speaking, CAR applies when a client avails of the firm's nominee service, where we hold documents of title, or where we hold funds on a client's behalf.

Cheques or other payable orders will be client funds from the time of their receipt by us but will not be client funds if;

- ▶ made payable to a third party which we directly transmit to that party; and
- ▶ a cheque/payable order received from a client which is not honoured by the paying bank is not a client asset

Funds sent to a client by way of cheque/payable order do not cease to be client assets until the cheque/ payable order is presented and paid by the eligible credit third party.

Client assets cease to be client assets, when they are paid, or transferred, to the client or to a third party on the written instruction of the client, or funds due and payable to the firm itself as outlined in the Terms and Conditions (e.g. if a client defaults on its obligations to the firm).

Davy clients with their own custody arrangements and/or clients who hold financial instruments in their own name fall outside of scope of CAR, unless the client has sent in his/her own name share certificate to Davy to be sold in the market. In this instance, CAR will apply while Davy is directly holding the own name share certificate for the client in its own safe custody arrangements. It would also apply to any funds which are settled through Davy client asset accounts.

Direct property investments are unregulated and investments in such instruments fall outside of CAR.

ONGOING DISCLOSURES TO CLIENTS

The firm will disclose in its client asset statements to clients whether individual assets within a portfolio are within scope of CAR or not. If you have any questions about this, you should speak to your Portfolio Manager or the Execution desk who can discuss your personal circumstances.

CLIENT FUNDS

Who holds my assets under CAR, and how?

Client funds will always be held either in pooled client asset settlement accounts, pooled client asset deposit accounts or individually designated client asset deposit accounts with an eligible third party credit institution. Further information about the credit institutions we use is set out in our Terms and Conditions.

Client funds are protected by rules laid out in CAR which include obligations relating to the segregation of client funds from the firm's funds, accurate record keeping, regular reconciliations between the firm's records and the eligible credit institution's, counterparty due diligence, etc.

Prior to lodging client funds with an eligible credit institution, we receive a written confirmation from the credit institution that client asset accounts are legally segregated from any bank account that Davy itself may hold.

CLIENT FINANCIAL INSTRUMENTS

Who holds your investments?

If you have financial instruments in your Davy account, using the Davy nominee service, you remain at all times the beneficial owner of those investments, even though a company independent of the Davy Group (such as Davy's nominated custodian) or a nominee company of the Davy Group may be registered as the legal owner.

Beneficial ownership arises where one party holds assets on behalf of another. The legal owner (i.e. the registered holder) has control over the asset and can, for example, buy and sell the asset on behalf of the beneficial owner. However, the legal owner in this instance is not entitled to the asset and so, while it will receive the income and capital on behalf of the beneficial owners, it will never benefit from it. The beneficial owner receives the benefits associated with ownership such as dividends and gains from the asset, etc. Davy is obliged by law, and by CAR, to report to clients in relation to the client assets it holds and any benefits associated with the assets.

Shares in UK and Irish companies, UK and Irish Exchange Traded Funds (ETFs) and UK government bonds are generally held with CREST/Euroclear UK & Ireland Limited (CREST). CREST is the Central Securities Depository (CSD) for the UK and Ireland. In addition CREST provides for real-time settlement of securities and is one of the largest and most technically advanced settlement systems in the world. Our nominee company is a member of CREST and its name appears on the share registers for these assets. Our nominee company operates individually designated CREST accounts for all clients who hold CREST eligible securities through Davy. This means that there are separate accounts within CREST for each Davy client. Client accounts are segregated from each other as well as from those of the firm.

Foreign shares, foreign ETFs and government and corporate bonds (with the exception of UK government bonds) are held with our global custodian, Bank of New York Mellon (BNY Mellon) in accounts named "Davy Client Asset Account". BNY Mellon in turn may arrange for these holdings to be held with various sub-custodians in local markets with account names dictated by the naming convention in those local markets. The custodian undertakes reviews of its sub-custodians on a regular basis. We operate a number of pooled client accounts with BNY Mellon. This means that any assets held on your behalf with BNY Mellon are held in accounts containing assets owned by other clients. These client accounts do not contain assets of the firm.

Unit fund transactions settle and are held in a J&E Davy Client Asset Account. Generally speaking and depending on the fund, orders are centralised either through Allfunds Bank or Clearstream Bank, our designated custodians for such assets. The relevant custodian arranges for the units to be registered with the individual fund administrators in the name of its nominee company (i.e. Allfunds or Clearstream nominee company). In some cases, units in other collective investment schemes, which are not held by either Allfunds Bank or Clearstream Bank, are directly held with the fund administrators and are registered in the name of Davycrest Nominees.

The use of pooled accounts is a feature of global custody. We maintain appropriate records to make sure that we can easily identify the securities we hold for you within pooled accounts. We have electronic links to our custodians which facilitates timely settlement and reconciliation.

Notwithstanding the above, there are some situations where market convention determines that Irish and UK stocks will be settled as though they were European (through our global custodian BNY Mellon) and vice versa (i.e. where certain foreign stocks will be settled through CREST). This most often arises where stocks are dual listed on more than one exchange or where the domicile of the company is different to the market where the stock is listed.

In the event that an asset registered in the name of our nominee company can only be held in physical/certificated format, we hold the certificate in a fire proof safe on our premises. It is Davy policy to minimise the amount of nominee holdings held in paper format so we only accept such holdings where they cannot be held electronically. There are strict controls in place to safeguard access to certificates as well as reconciliations which are described in greater detail below.

Where clients hold other types of investments (e.g. private equity investments), not mentioned above, they may be held in the name of a nominee company with third parties. Please contact Davy if you require further information in this regard.

Protecting your Assets

As set out in our Terms and Conditions, we are careful in our choice of third parties, and monitor their performance on an ongoing basis. We perform regular risk assessments on each of the entities. Any third party we choose is appropriately authorised in the jurisdiction in which it is situated and is subject to appropriate prudential and client asset supervision.

However, we do not accept liability for any acts or omissions of those custodians or credit institutions, or for their default. In the event that a custodian or credit institution becomes insolvent, you may not receive back all or any of the assets or funds that that custodian or credit institution holds on your behalf.

We are a member of the Investor Compensation Scheme, set up by law, which provides compensation to eligible investors should we become insolvent. You will only have a right to compensation if you qualify as an eligible investor; and if we are unable to return to you money or Financial Instruments that you are owed or own, and if your loss is recognised by the Investor Compensation Scheme. The amount of compensation that you may receive will be 90% of the net amount you have lost or €20,000; whichever is less. Full details of the Investor Compensation Scheme are available on www.investorcompensation.ie. In the event of changes to the scheme details will be provided on this website.

WHAT ARE THE MAIN RISKS OR LIMITATIONS TO SAFEGUARDING CLIENT ASSETS?

Investors should note that while CAR imposes obligations on firms to segregate client assets from firm assets, as well as other requirements, it does not protect or guarantee the value of the client assets, nor does it in any way seek to impose regulations on investments which may be unregulated or which may operate outside a regulatory environment. Similarly, investors will continue to bear default risk in the event of either the firm or one of its eligible credit institutions or eligible custodians defaulting on its obligations.

The material risk relating to safeguarding client assets include some of the following risks as outlined below. Various other risks may also apply.

Counterparty Risk

A counterparty risk, also known as a default risk, is a risk that a counterparty will not pay what it is obligated to on a transaction pending settlement. In addition, the value of an investment may be adversely affected if it is exposed to an institution which suffers insolvency or other financial difficulties (default).

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. For every firm, there is a risk that its people, processes and systems are imperfect, and that losses will arise from errors and ineffective operations.

Risk of Fraud

The risk of fraud relates to an intentional deception made for personal gain or to damage another individual which may be perpetrated internally or externally to a firm.

Risk of Pooling

There is a risk that one client's assets will be used to fund another client's transactions; that the firm will not appropriately implement accounting segregation or that the pool may have deficit and any losses would be applied on a pro-rata basis across all clients participating in the pool.

Conversely, you may choose to make your own custody arrangements and/or hold financial instruments in your own name. Global custody arrangements for individual clients are expensive and this option is usually availed of by large, professional clients.

Controls to Help Mitigate Against Risk

While a firm can never eliminate risk, MiFID firms such as Davy which are subject to the European Communities (Markets in Financial Instruments) Regulations 2007 (the MiFID Regulations) are obliged to put in place adequate policies and procedures designed to detect any risk of failure of the firm to comply with the provisions of the MiFID Regulations. In addition, MiFID firms must monitor and on a regular basis evaluate the adequacy and effectiveness of the systems, internal control mechanisms and arrangements established, implemented or maintained in accordance with the Regulations, and take appropriate measures to address any deficiencies in the firm's compliance with its obligations.