



## **Client Commission Arrangements**

### **Introduction**

Fiduciary principles require Sprucegrove to seek the best execution for its clients' trades and to refrain from using clients' assets for its own benefit. The use of client commissions to pay for research and brokerage products and services may present Sprucegrove with a conflict of interest since it may have the incentive to disregard its best execution obligation or trade securities otherwise inappropriately in order to obtain research products and services.

This policy also sets forth the circumstances under which Sprucegrove may engage in client commission arrangements ("CCA"). A CCA (also known as a "client sharing arrangement ("CSA")", "28(e) agreement", "soft dollar program" or "use of client brokerage commissions") is a way to unbundle execution commissions from research costs, thus providing a more efficient and transparent way for investment managers to pay for independent research while seeking to obtain the very best execution services available. Generally speaking, CCAs are designed to empower trading desks to focus on best execution by transacting with brokers of choice at the point of execution, while still enabling portfolio managers and analysts to have access to required research services from a wide range of providers. Sprucegrove has established written policies and procedures reasonably designed to ensure that its practices regarding client commissions are legally permissible and adequately disclosed.

### **Policies**

Sprucegrove will participate in a CCA program in accordance with the provisions set forth in National Instrument 23-102 – Use of Client Brokerage Commissions ("NI 23-101") and Section 28(e) of the Securities Exchange Act of 1934, as amended ("Section 28(e)").

Sprucegrove will participate in "client directed" commission programs where we have been directed by a separate account client in writing, to a limit of 25% of commissions generated by that client.

Sprucegrove claims compliance with CFA Institute Soft Dollar Standards (Guidance for Ethical Practices Involving Client Brokerage).

### **Position**

#### **Manager Directed Programs**

In selecting a broker-dealer to execute client transactions, Sprucegrove may take into

consideration the fact that the broker-dealer will provide research services in accordance with Section 28(e) and NI 23-102, which permits an investment adviser to cause a client account to pay a higher commission to a broker that provides brokerage and/or research services than the commission another broker would charge, provided the adviser determines in good faith that the commission paid is reasonable in relation to the value of the brokerage and/or research services provided. Sprucegrove uses research services it receives from client commissions in managing client accounts.

Sprucegrove primarily relies on its own internal research but believes that proprietary research received from broker-dealers can be a valuable adjunct to its internal efforts and can provide information, insights and access to issuers that would not otherwise be available to it. Examples of eligible research services obtained by Sprucegrove in accordance with applicable laws include, but are not limited to:

- Traditional research reports;
- Market data (such as stock quotes, last sale prices, and trading volumes), economic data, and company financial data;
- Commercially-available economic, market data, and market tracking services used in making investment decisions;
- Financial and political analysis;
- Fundamental and technical analysis;
- Financial databases;
- Software that provides analyses of securities portfolios (modeling and strategy software);
- Risk management analysis;
- Market research received through order management systems or trade analytical software, including pre-trade and post-trade analytics, software and other products that depend on market information to generate market research, including research on optimal execution venues and trading strategies;
- Advice from broker-dealers on order execution, including advice on execution strategies, “market color,” and the availability of buyers and sellers (and software that provides these types of market research);
- Discussions with research analysts;
- Meetings with corporate executives to obtain oral reports on the performance of a company (*i.e.*, reports about securities, companies, industries, economic trends, political factors, etc.);
- Seminars or conferences if they relate to research, that is, they provide substantive content relating to securities, companies, industries, economic trends, political factors, etc.<sup>1</sup>;
- Corporate governance research (including corporate governance analytics) and corporate governance rating services if they reflect expression of reasoning or

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<sup>1</sup> However, travel and related expenses (e.g., meals and entertainment) associated with arranging trips to meet corporate executives or to attend seminars or conferences are not eligible.

knowledge relating to securities, companies, industries, economic trends, political factors, etc.; and

- Consultant services related to advice with respect to portfolio strategy.

Research received by Sprucegrove is generally used by it in connection with some or all of its client accounts and not just the account(s) whose commissions may have generated such benefit. Sprucegrove does not seek to allocate research solely with respect to the clients whose commissions may have generated that research.

#### Client Directed Brokerage

Sprucegrove may, at the request of a client in writing, direct brokerage transactions undertaken on behalf of that client to a broker specified by the client. Sprucegrove reserves the right to limit the extent to which a client may designate brokers or dealers for the execution of their transactions. Sprucegrove generally seeks to limit participation in client directed brokerage arrangements to not more than 25% of commissions generated by that client as long as it does not adversely impact the firm's trading execution and the client makes the arrangement for the program. A client account that directs brokerage will not receive any benefits from participating in aggregated trades with other clients (as discussed herein) and may otherwise receive less favorable execution than if it had permitted Sprucegrove to place the account's trades. A client directed brokerage arrangement may cause participating clients to pay higher brokerage commissions in connection with trades for their accounts than would otherwise be the case.

#### **Procedures**

##### Manager Directed Programs

Sprucegrove employees may not enter into any new covered client commission arrangement unless Sprucegrove's Client Commissions Committee has approved it in writing in advance.

If the Director of Research or a Portfolio Manager would like to enter into a new client commission arrangement, they must complete and sign either the *Proposed CCA Covered Arrangement Approval Form* (for each proposed covered arrangement to be provided through a CCA) or the *Proposed Non- CCA Covered Arrangement Approval Form* (for each proposed covered arrangement that will not be provided through a CCA) and submit the completed form to the Investment Team and the Client Commissions Committee for approvals. A separate form must be completed for each proposed covered arrangement.

With respect to each proposed CCA Covered Arrangement, Sprucegrove's Client Commissions Committee will make a good faith evaluation of whether: (i) each product or service received is eligible "research" or "brokerage" under applicable laws; and (ii) each product or service provides lawful and appropriate assistance in the performance of Sprucegrove's investment decision-making or brokerage processes.<sup>2</sup> For each proposed arrangement that will not be

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<sup>2</sup> "Investment decision-making process" refers to the investment processes and related tools used by Sprucegrove in rendering investment advice to its clients, including financial analysis, trading and risk analysis, securities

provided through a CCA, Sprucegrove's Client Commissions Committee will additionally evaluate whether the amount of commissions Sprucegrove is expected to direct to the broker-dealer is reasonable in light of the estimated value of the products and services to be received. Furthermore, the Client Commissions Committee will have the ability to stop generating research commission credits in its discretion from time to time given the volume of commissions generated as compared to the firm's annual research budget.

The Client Commissions Committee will also be responsible for:

- Reviewing for reasonableness and pre-approving all commission payments made to research providers;
- At least annually, reviewing and approving the continuance of each client commission arrangement;
- At least annually, reviewing summary information regarding the eligible research and brokerage products and services received by Sprucegrove and evaluating whether such products and services continue to provide lawful and appropriate assistance in the performance of Sprucegrove's investment decision-making or brokerage processes and whether the amount of commission payments made to each research provider were reasonable in light of the benefit to clients of the products and services received;
- At least annually, reviewing the commission allocations for all "mixed-use" items;
- At least annually, reconciling Sprucegrove's records of commission credits earned to the records maintained by executing brokers (and/or Westminster);
- At least annually, reviewing for reasonableness the commission rates charged by each broker providing research and/or brokerage products and services and evaluating whether the amount of commissions paid to each broker is reasonable in light of the value of such products and services provided by the broker;
- Reviewing, approving and managing any directed brokerage relationships or commission recapture programs requested by clients; and
- At least annually, prepare and approve all required client disclosures with respect to Manager Directed Programs.
- Sprucegrove's Client Commission Committee will maintain records evidencing:
  - the types of products or services received as a result of each client commission arrangement;
  - the amount of commissions paid to brokers, including brokers with whom Sprucegrove has entered into client commission arrangements;
  - client commission-related approvals and reviews;
  - Sprucegrove's good faith determination that the amount of commissions paid is reasonable in relation to the value of the research and brokerage services provided by brokers; and
  - the allocations of the cost of each "mixed-use" product or service (if any) between client commissions and "hard dollars" and the reason(s) for such allocations.

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selection, broker selection, asset allocation and suitability analysis.

Additional information regarding the Client Commissions Committee and its responsibilities is set forth in the *Client Commissions Committee Charter*.

Any question regarding whether an arrangement is considered a client commission arrangement should be directed to Sprucegrove's Client Commissions Committee.

#### Client Disclosures

##### US Investors:

- Sprucegrove's Form ADV will disclose information regarding its client commission practices as approved by the Client Commissions Committee.

##### Canadian Investors:

- Investment Operations will ensure as part of the client onboarding process, that each client is provided with the most recent version of the Relationship Disclosure Information document which contains:
  - a description of the process for, and factors considered in, selecting a broker to effect securities transactions, including whether receiving goods or services in addition to order execution is a factor;
  - a description of the nature of the arrangements under which order execution and/or research or other services might be provided;
  - a list of each type of good or service, other than order execution, that might be provided; and
  - a description of the method by which a good faith determination is made that clients receive reasonable benefit considering both the use of the goods or services received and the amount of client brokerage commissions paid.
- Investment Operations will ensure that annually all clients are provided with a current Relationship Disclosure Information document along with a list of each type of good or service, other than order execution, that has been provided as approved by the Client Commissions Committee.
- Upon client request, the Client Commissions Committee shall provide a record of the name of any broker or third party that provided a good or service, other than order execution.

#### Client Directed Brokerage and Minority- and Women-Owned Business Enterprise ("MWBE") Programs

Sprucegrove's role with respect to client directed programs and MWBE programs is as follows:

- When appropriate and where requested by the client in writing, advise the broker that commissions are to be directed.
- Provide disclosures to the client regarding the potential implications on best execution given the directed brokerage program.
- Record the directed commissions on the order management system using a directed commission broker code.

- Upon client request, prepare directed commissions reports to track and detail directed commissions (subject to Sprucegrove's internal limit of 25% of total commission dollars by client).
- Upon client request, Sprucegrove will consider allocating brokerage commissions to MWBE and prepare reports to track and detail such commissions.
- Where requested, reconcile records of directed commissions paid to those of the client's consultant.

#### **Risk & Compliance Oversight**

1. Risk & Compliance will review monthly broker commission reports for improper or unusual allocations.
2. On an annual basis, Risk & Compliance will sample review client commission arrangement for evidence of written approval of the Client Commissions Committee.
3. On an annual basis, Risk & Compliance will review a sample of the evaluations performed by the Client Commissions Committee of commission payments made to research providers, including the lawfulness and appropriateness of the products and services.
4. On an annual basis, Risk & Compliance will verify the review and approval of the continuance of each client commission arrangement.
5. On an annual basis, Risk & Compliance will validate that the Client Commissions Committee has reviewed and confirmed the commission allocations for all "mixed-use" items.
6. On an annual basis, Risk & Compliance will validate the completion of record reconciliation of commission credits earned to the records maintained by executing brokers (and/or Westminster).
7. On an annual basis, Risk & Compliance will verify that client instructions exist for all directed brokerage arrangements and ensure the internal 25% limit is not exceeded.