

# Close Brothers Asset Management

## Order Execution Policy

April 2019

### Purpose

This document provides information about the Order Execution Policy (“the Policy”) of the Close Brothers Asset Management group of companies; Close Asset Management Limited and Close Asset Management (UK) Limited<sup>1</sup> (“CBAM”). The Policy should be read in conjunction with your CBAM terms and conditions.

#### What is the purpose of the Policy?

We recognise the importance of achieving the best possible result when carrying out client orders. The Policy aims to provide you with an understanding of how we carry out client orders.

#### What is a client order?

A client order will result from:

- a decision by CBAM to deal on behalf of a client when acting under discretion;
- a client instruction to deal, following a recommendation from us; or
- a client instruction to deal on an execution only basis.

#### Does the Policy differentiate between Retail and Professional clients?

For the purposes of best execution, CBAM treats all clients as Retail clients in accordance with the Financial Conduct Authority’s Client Categorisation rules.

### Governance

#### How do you monitor compliance with the Policy?

The effectiveness of our order execution arrangements are monitored by our centralised Dealing Desk on a day to day basis. Security prices are compared at the time of trade using live data feeds and market information. Additional periodic monitoring activities are carried out independently from the Dealing Desk by the Compliance department.

We also use a third party best execution monitoring system to review the quality of execution obtained on a post-trade basis. We have established best execution benchmarks and any trades that are identified as in breach of these benchmarks are reviewed on a weekly basis by the Dealing Desk.

In addition, we will review any relevant execution quality reports published by our brokers and counterparties. We include links to these reports in Appendix A.

#### Which committee provides oversight of the Policy?

The Best Execution Oversight Committee (“BEOC”) – a sub-committee of CBAM’s Risk and Compliance Committee – meets monthly and receives detailed management information on execution quality and performance against the execution benchmarks and other key performance indicators.

The BEOC aims to:

- keep the Policy under regular review and ensure that it continues to meet the required regulatory standards;
- ensure that CBAM’s monitoring processes are sufficiently robust; and
- identify any failings and implement corrective actions where required.

The BEOC is responsible for reviewing the overall performance of our execution venues and assessing on a regular basis whether our execution arrangements have provided best execution. As part of this oversight, detailed monthly management information is produced using a third party transaction cost analysis system. Trades are reviewed on an exceptions basis against predefined execution benchmarks and the reasons for any such exceptions are reviewed. In addition, a sub-group of this committee meets on a quarterly basis to review the performance of our brokers across the three main asset classes namely Equities (split between Large and Small cap trades), Exchange Traded products and Bonds.

We formally review the Policy at least on an annual basis. In addition, the Policy will also be reviewed by the BEOC whenever a material change occurs that affects our ability to obtain the best possible result on a consistent basis. Where we make any material changes to the Policy, we will notify clients of any such changes, which may be via our website or other client communication.

<sup>1</sup> In respect of Close Asset Management (UK) Limited, references to client(s) should be interpreted as fund(s).

## Best Execution

### What is Best Execution?

Best execution is a regulatory obligation meaning that we must take all sufficient steps to obtain, when executing orders in relation to all types of financial instruments, the best possible result for our clients. However, it is important to note that whilst the Policy is designed to achieve the best possible result on a consistent basis, this does not necessarily mean that we will obtain the best possible result for every trade.

### What are the different types of financial instruments?

For the purposes of best execution, the main financial instruments relevant to CBAM are:

- Equities e.g. shares, investment trusts.
- Fixed interest securities e.g. gilts, corporate bonds.
- Exchange traded products e.g. exchange traded funds, exchange traded commodities.
- Collective investment schemes e.g. UCITS funds, NURS funds.
- Currency derivatives e.g. forward FX transactions.

### What is the scope of Best Execution?

It is necessary to differentiate between circumstances when CBAM is executing an order and when we are placing an order with an execution venue, such as a broker, for it to execute.

- Where we execute a transaction, we will not receive a duty of best execution from the broker. For example, this will be the case when we deal in markets where we request a price quotation from a broker or carry out a trade in a fixed interest security with a counterparty on Bloomberg Trading Facility Limited's multilateral trading facility, BMTF.
- When CBAM places an order with a broker for it to execute on our behalf, typically the broker will undertake to provide CBAM with best execution. For example, we may send a large equity order to a broker to carry out throughout the trading day. When placing orders with brokers for execution, our Dealing Desk may also provide the broker with additional instructions regarding the execution of that order with the aim of obtaining the best possible result.

In both scenarios, it is important to note that CBAM will owe best execution to its client.

### What is your approach to obtaining Best Execution?

We will take into account a number of execution factors including:

1. Price.
2. Costs.
3. Speed of execution.
4. Likelihood of execution and settlement.
5. Size of the order.
6. Nature of the order.
7. Any other consideration relevant to the efficient execution of the order.

Wherever possible, the primary factors are price and costs. CBAM aims to obtain the best possible result in terms of the total consideration, representing the price of the

financial instrument and the costs related to execution (i.e. all expenses incurred by the client which are directly related to the execution of the order).

On occasion, speed, likelihood of execution and settlement, the size and nature of the order, market impact and any other implicit transaction costs may be given precedence over the immediate price and cost consideration only insofar as they are instrumental in delivering the best possible result in terms of the total consideration. Where we may decide that execution factors other than price and costs are more important in achieving the best possible result for you, the relative importance of these factors will depend on:

- the characteristics of the order,
- the characteristics of the financial instruments that are the subject of the order, and
- the characteristics of the execution venues to which the order can be directed.

For example, for orders in shares of smaller companies, the ability to execute the order in the required volume is often the key factor as the choice of execution venue may be limited to a single broker who is capable of delivering that volume. Where this is the case, the price for that transaction is largely determined by means of negotiation between us and that broker with the objective of obtaining the best possible result.

## Venues – introduction

### What is a trading venue?

Trading venue means a regulated market, a multi-lateral trading facility or an organised trading facility. A summary of each type of trading venue is contained in Appendix B. CBAM is a participant of Bloomberg Trading Facility Limited's multilateral trading facility, BMTF.

### What is an execution venue?

An execution venue is a wider definition that includes trading venues, but also other brokers and counterparties with which we execute and place client orders.

### What factors affect the choice of execution venue?

CBAM's policy is to select execution venues that we believe have arrangements that will allow CBAM to comply with its obligation to obtain the best possible result on a consistent basis. In addition to execution capability, we also consider the execution venue's:

- operational capability,
- history of disciplinary and regulatory action, and
- financial stability.

The following additional factors affect the choice of venue for each class of financial instrument:

**Equities** – Total cost (the price of the financial instrument and the costs related to execution, such as a broker's commission) is the key consideration when selecting execution venues for equities. Where necessary, we also consider implicit costs, for example, such as minimising the market impact of a large transaction worked over time. The relative importance of size as an execution factor may increase when dealing in less liquid equities. Some of our counterparties provide us with access to their proprietary

dealing algorithms – computer programs that aim to provide best execution – which we may use where we do not require a ‘high touch’ execution service from our broker. We may also use the services of a Retail Service Provider for smaller trades. This provides access to numerous quotes thus enabling us to accept the best available price.

**Fixed interest securities** – Cost is also the key consideration when selecting execution venues for these instruments. Unlike equities, broker commission is not normally paid as the broker’s remuneration is contained within the quoted price of the particular security. We mainly use Bloomberg’s trading system, BMTF, which facilitates the exchange of financial instruments between trading counterparties. In liquid instruments (for example Gilts or US Treasuries) we typically ask several counterparties to quote with the best price securing the order. In less liquid bonds, we try and source natural flow or ‘blocks’ to try and match our orders. For larger orders we may typically work with one broker and within an agreed limit or yield.

**Exchange traded products** – These instruments trade in a similar fashion to equities, hence, total cost is the primary factor used to select an execution venue. We may also use BMTF when carrying out these orders.

**Collective investment schemes** – Typically transactions in collective investment schemes, such as unit trusts and OEICs, are conducted directly with the relevant fund management company.

**Currency derivatives** – Given the stringent regulatory requirements governing the trading of derivatives, our choice of venue is restricted to those banks where the required legal documentation and trading arrangements are in place.

Any new execution venues are subject to detailed review by the Dealing Desk with additional approval required from the Finance, Operations and Compliance departments prior to ratification by the BEOC.

Please refer to Appendix C for a list of the execution venues on which we place significant reliance in meeting our obligation to obtain the best possible result on a consistent basis for the execution of client orders.

## Venues – further considerations

**Is there a possibility that a client order may be executed outside a trading venue?**

Yes. However, our execution venue selection arrangements set out above are designed to mitigate the risks – for example counterparty risk – when dealing outside a trading venue. Clients can if required request specific information from CBAM about the risks associated with trading outside a trading venue.

**Do you offer Request for Quote (RFQ)?**

Clients do not have access to RFQ or “quote and deal” functionality. All orders are routed to our centralised Dealing Desk which carries out orders in accordance with the Policy.

**Do you use Direct Electronic Access?**

Direct Electronic Access (DEA) means an arrangement where a member or participant of a trading venue permits a firm to use its trading code so the firm can electronically transmit

orders relating to a financial instrument directly to the trading venue. We do not currently use such arrangements.

**Are equities ever dealt with a connected party?**

We use the services of Winterflood Securities (“Wins”) which is part of the Close Brothers Group, but only on the basis that CBAM is able to comply with its best execution obligations and that such arrangements are at “arm’s length”. Wins will execute these transactions in accordance with its own order execution arrangements which are entirely independent of this Policy. As with all brokers and counterparties, the BEOC monitors the execution quality provided by Wins on a regular basis.

**Do you receive investment research in exchange for dealing commission paid to a broker?**

Under the FCA’s rules we are not permitted to receive such inducements. For further information on CBAM’s approach to investment research, please refer to our Investment Research Policy which is available in the Policies section of our website.

**Do you receive any other inducements, such as gifts or hospitality, from your brokers?**

The receipt of any such inducements may be permitted, but only subject to compliance with our Conflicts of Interest Policy which is available in the Policies section of our website.

## Other information

**How are orders allocated?**

In the majority of cases, stock is pre-allocated to individual clients prior to execution of the trade. In the event of partially-filled orders, we have procedures to ensure that the allocation of securities is fair to clients.

**Do you aggregate orders with other clients or the company?**

We may aggregate your transactions with those of other clients (including our staff, and staff and clients of other subsidiaries of the Close Brothers Group) where we have reasonable grounds to believe that this will work to the advantage of the clients concerned. Aggregation may result in a more or less favourable price than would have been achieved had the instruction been carried out separately. On occasion, therefore, the effect of aggregation may work to your disadvantage for a particular order.

**What happens if I provide specific instructions in relation to an order?**

We do not routinely accept specific instructions as to how to execute orders. However, should we accept such instructions, this may prevent us from taking the steps that we have designed and implemented to obtain the best possible result for that order.

**What is a matched bargain?**

In certain circumstances, we may arrange for the purchase and sale of the same financial instrument between clients’ accounts, known as a “Matched Bargain”. We will use the services of a broker and only undertake this where we believe that this will secure the best possible result for clients.

**Do you publish information on execution quality?**

Yes. We will publish annual execution quality information on our website at [www.closebrothersam.com](http://www.closebrothersam.com). The first reports will be available from April 2018.

## Where can I find out further information about CBAM's execution arrangements?

Further details about our execution arrangements are available on request from your CBAM adviser, investment manager or other contact point.

## Is consent to the policy required?

We are required to obtain your prior consent to the Policy. Such consent will be given by signing the Application Form or other account opening documentation.

## Appendix A – Links to Execution Quality Reports

We will update this section as and when our counterparties and brokers publish their execution quality information.

## Appendix B – Trading Venue

A trading venue is a term used to describe a regulated market, a multilateral trading facility (MTF) or an organised trading facility (OTF).

- A regulated market is defined as a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments – in the system and in accordance with its non-discretionary rules – in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems.
- A multi-lateral trading facility means a multi-lateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments in the system and in accordance with its non-discretionary rules in a way that results in a contract.
- An organised trading facility is a multilateral system that is not a regulated market or multilateral trading facility. Within an OTF, multiple third-party buying and selling interests in bonds, structured finance products, emission allowances or derivatives are able to interact in a way that results in a contract. Equities are not permitted to be traded through an OTF.

## Appendix C – Execution Venues and Brokers

### Equities

- [Arden Partners](#)
- [Atlantic Equities](#)
- [Autonomous Research](#)
- [Avalon Capital Markets Ltd](#)
- [Barclays](#)
- [Berenberg](#)
- [Bernstein](#)
- [Canaccord](#)
- [Cantor](#)
- [Cenkos](#)
- [Cheviot](#)
- [Citigroup Global Markets Ltd.](#)
- [Computershare Ltd](#)
- [Credit Suisse Securities Europe Ltd](#)
- [Fidante Capital](#)
- [Finncap](#)
- [Flow Traders](#)
- [Instinet](#)
- [Investec Securities](#)
- [Jefferies](#)
- [JP Morgan](#)
- [Keefe-Bruyette & Woods](#)
- [Liberum Capital Limited](#)
- [Link Market Services Limited](#)
- [Macquarie](#)
- [Merrill Lynch](#)
- [Mirabaud](#)
- [Mizuho International](#)
- [Morgan Stanley](#)
- [N+1 Singer Capital Markets Ltd](#)
- [Northern Trust Securities Llp](#)
- [Numis Securities Limited](#)
- [Panmure](#)
- [Peel Hunt Llp](#)
- [Raymond James](#)
- [Redburn Partners](#)
- [Royal Bank of Canada](#)
- [Shore Capital](#)
- [Société Générale](#)
- [Stifel](#)
- [Stockdale Securities](#)
- [Union Bank of Switzerland](#)
- [VP Bank](#)
- [WH Ireland](#)
- [Winterflood Securities](#)
- [Zeus Capital](#)

### Fixed interest securities

- [Barclays Capital](#)
- [Canaccord](#)
- [Citigroup Global Markets Ltd.](#)
- [Credit Suisse Securities Europe Ltd](#)
- [Goldman Sachs](#)
- [HSBC](#)
- [Jefferies](#)
- [JP Morgan](#)
- [Lloyds TSB](#)
- [Merrill Lynch](#)
- [Mint Partners](#)
- [Mitsubishi UFJ Trust Intl. Limited](#)
- [Mizuho International](#)
- [Morgan Stanley](#)
- [NCL](#)
- [Peel Hunt LLP](#)
- [Rabobank](#)
- [Royal Bank of Canada](#)
- [Royal Bank of Scotland](#)
- [Stifel](#)
- [Union Bank of Switzerland](#)
- [Winterflood Securities](#)

### Exchange traded products

- [Barclays](#)
- [Flow Traders](#)
- [Jane Street](#)
- [Macquarie](#)
- [Merril Lynch](#)
- [Morgan Stanley](#)
- [Royal Bank of Canada](#)
- [Société Générale](#)
- [VP Bank](#)
- [Winterflood Securities](#)

### Collective investment schemes

- Collective investment scheme management companies as required

### Currency derivatives

- [Bank of New York Mellon](#)