Quilter Investors Limited Order Execution Policy

June 2018

1. Introduction

Quilter Investors Limited ("QIL") is authorised as an alternative investment fund manager (an "AIFM") under the Alternative Investment Fund Managers Directive ("AIFMD") to manage alternative investment funds and UCITS and to manage portfolios of investments in accordance with mandates given by investors on a discretionary client-by-client basis. QIL invests in various asset classes including equities, fixed income, foreign exchange, exchange traded derivatives, and over the counter ("OTC") derivatives.

The investment management activities performed by QIL include the generation, execution and transmission of fund orders. Regulation explicitly requires QIL to act in the best interest of its clients and to take all sufficient steps to ensure it achieves and maintains the best execution of orders. This Order Execution Policy outlines the dealing arrangements through which QIL achieves best execution for its clients and the funds it manages for them.

2. Scope

This Order Execution Policy applies to any financial instruments which are covered by the European Union's Markets in Financial Derivatives Directive (MIFID II). These include:

- Transferable securities
- Financial derivatives
- Contracts for difference
- Units in collective investment schemes
- Money Market instruments

QIL trades on behalf of professional clients only.

3. Governance Structure

The following governance structure is currently in place for orders executed by QIL:

- QIL's Compliance Advisory team is responsible for monitoring the execution outcomes achieved by the dealers and it reports summary information into the Trade Management Forum (the "TMF")

The TMF has a responsibility to improve execution methods, which is independent of the dealers and broader in nature, and for ratifying the execution methods used.

4. Best Execution

4.1 Order generation

QIL operates a single investment desk. The investment desk routes their orders to the central dealing desk for execution.

QIL employs fund managers who are responsible for fund performance and to that end they generate orders to manage the fund assets of the relevant fund. Dealers are responsible for the execution or transmission of those orders to the relevant markets and for the selection of the counterparty and / or the execution venue. When authorising orders the fund manager selects an associated execution benchmark which indicates the relative importance of some of the execution factors to the dealer.

Example execution benchmarks include:

- timed trades for execution at a specific time
- average daily market prices
- the current market level

4.2 Execution and Transmission

Execution is where the QIL dealer retains discretion to select the price achieved for an order. For these executions QIL owes the client a duty of best execution. For transmitted orders the dealer passes some or all of the order pricing discretion to the counterparty and the duties of best execution travel with it. The transmission may include constraints or parameters within which the counterparty must work.

Where QIL transmits an order, the receiving counterparty owes QIL a duty of best execution. However QIL retains an overarching duty of best execution to the client and the best interests of the client are supported through the selection of the most competent counterparty for the order and subsequent oversight reviews.

4.3 Order Placement

QIL employs experienced dealers who are physically positioned within close proximity of the fund managers. This arrangement facilitates communication which enhances the order execution process when the dealer needs to consult with the fund manager on execution factor priority.

It is important when placing a trade that the dealers have access to relevant pools of liquidity, counterparties and systems to ensure that the execution is transacted on the best possible terms. Dealers understand that the total cost of an execution includes both implicit and explicit costs. Although commission is an important component of that cost, market impact can be much greater if it is not acknowledged and managed.

The dealers will give priority to execution methods which match willing buyers and willing sellers (natural liquidity). These methods should offer the best execution outcome and reduce or eliminate the market impact.

Where natural liquidity is not available the dealers call on their experience to decide the optimum trading approach after taking all relevant factors into consideration.

4.4 Execution factors

When a dealer receives an order they consider the characteristics or execution factors associated with the order together with the selected execution benchmark in order to determine the execution approach.

The execution factors include:

- suitability of available venues to achieve the best execution price
- costs including explicit commissions and implicit market spreads or impact
- speed and likelihood of execution
- likelihood of settlement
- size and liquidity available in the instrument
- the nature of the order

QIL determines the relative importance of these factors according to the following criteria:

- •the objectives, investment policy and risks specific to the fund
- •the characteristics of the order
- •the characteristics of the financial instrument; and
- •the characteristics of the execution venues to which that order can be directed.

In all cases the dealer selects an approach with the objective to achieve the best possible execution outcome taking into account the costs and other execution factors. The importance of each factor varies for each order and the prevailing market conditions. Generally price is the most important factor and when other factors are important then price remains important subject to those other factors.

For timed orders the importance of the speed of execution at the appropriate time is given importance. For market average orders the commission rate paid for the service is the deciding factor subject to the ability of the counterparty to achieve or provide the market average price.

The size and liquidity factors are linked. For order sizes which are smaller than the available liquidity over the required timeframe then order size is not a limiting execution factor. Where the order size is larger than the available market liquidity, under some dealing approaches, the order could drain the market of liquidity and move the market price against the incomplete order. For such orders there is usually a compromise between time and size. If the fund manager allows more time for the execution then the dealer may partially execute the order which may allow time for liquidity to recover before executing subsequent portions of the order.

For equities the market capitalisation has bearing on the execution. Instruments with a large market capitalisation tend to have more market participants, trading more regularly and in larger size. Additionally, order sizes as a proportion of the market capitalisation are small. For most large capitalisation instruments order size is manageable either using available market liquidity or with a short extension of the order time frame.

For medium and smaller capitalisation equites there are relatively less market participants, trading less frequently and in smaller size. Order sizes can be material proportions of the market capitalisation. For small capitalisation orders extending the order time frame and careful selection of the counterparty for their discretion and knowledge of the instrument become important factors for achieving the best overall price.

Where the fund manager requires a prompt execution, the dealer promotes the importance of the speed execution factor. If the market is not able to absorb the order then this may mean compromising on other factors in order to achieve the prompt execution. The dealer and the fund manager consult on the judgement for the size of the factor compromise.

For funds which require daily rebalancing dealers typically select a timed or market average price approach. This achieves the execution within the necessary timeframe at the prevailing market level. Where such orders are collected together for execution as a package then the dealers select a program trade approach. Program trades are also used to implement asset allocation changes where a fund manager wishes to switch a number of positions at the same time or to invest or divest the fund against client cash flows without destabilising the fund position.

The time is more flexible for funds which use a stock selection investment strategy. The dealer may be given more discretion to wait for the right market conditions or sources of natural liquidity in order to achieve a better price than the prevailing market level adjusted for the order size. Working the order over time will reduce the market impact but at the expense of running market risk during the execution.

For other orders the time factor may be uprated to ensure execution before a specific event or as a fast reaction to a recent event which is moving the market.

4.5 Best Execution over the long term

The regulatory requirement is for QIL to take all sufficient steps to achieve the best possible result on a consistent overall basis. Within this there may be individual executions which do not achieve the best possible result.

5. Counterparty and Execution Venue Selection

QIL aims to select execution venues that enable it to obtain the best possible result for the execution of client orders on a consistent basis.

QIL uses counterparties which are regulated, either by the Financial Conduct Authority ("FCA") or by the counterparty's home state regulator and are approved internally via the QIL counterparty approval process.

The overriding consideration when selecting an execution venue or counterparty is that the venue or counterparty concerned has adequate systems and controls in place to enable the delivery of best execution.

Before executing an order the dealers review the order execution factors to determine the candidate execution venues or counterparty and the execution methods to use.

5.1 Equity

For most types of equity orders the first choice for execution venue are sources of natural liquidity. Larger orders in small and infrequent trading instruments may wait for natural liquidity over an extended period. During such a period the dealer regularly consults with the fund manager to assess the balance of the execution factors.

If there is no natural liquidity available the dealer researches market liquidity trying to identify counterparties which have advertised an interest or recent activity in the instrument. This and other market colour may inform the dealer of execution venues which should provide the keenest prices for the order.

The dealers maintain and manage a list of primary counterparties for each class of equity by market capitalisation and local market. A small number of large investment banks form the bulk of larger capitalisation equities lists.

For smaller capitalisation equities the lists are longer and include specialists for specific markets and stocks.

5.2 Fixed Income

Fixed income is largely an OTC market. Execution may take place on electronic platforms or between direct communication between QIL dealers and counterparties. The trading activity for fixed income markets is concentrated in the largest banking counterparties.

For all fixed income trades and prior to dealing the dealer researches a fair market level and liquidity for the transaction given the nature of the instrument, size, immediacy of the order and prevailing market conditions. The dealer uses this research to guide the selection of an execution method which may use either a manual or electronic approach, or a combination of both.

The electronic platforms used by QIL are authorised as multi-lateral trading facilities ("MTFs"). Some MTFs provide competitive access to the more liquid segments of the fixed income market and typically facilitate a request for quote dealing process with the main counterparties offering liquidity in the instrument. Where the MTF restricts the number of price requests for a single order the dealer selects candidate counterparties from their market pricing and size indications, together with any market colour and previous execution performance. Other MTFs are peer-to-peer crossing networks which facilitate the identification of natural liquidity.

For manual orders the dealer researches the instrument to identify the candidate counterparties and places them in competition for the order. Counterparty selection priority is given to counterparties indicating the best market prices for the size of trade as well as previous liquidity experience or indications of interest from market colour.

In competition the dealer will endeavour to obtain a minimum of three executable prices which are within tolerance of the fair market spread level of prices shown on the order screen before executing. Where three such prices are not available the dealer may exercise judgement to determine if one of the available prices is within tolerance of the fair market spread level for prevailing trading conditions, order characteristics and immediacy of execution. For larger orders the dealer may elect to work on a discrete basis with a single counterparty in order to minimise information leakage and market impact.

5.3 Exchange Traded Derivatives

QIL appoints one or more clearing brokers for each fund. A clearing broker is a member of multiple derivative exchanges and acts as the agent for the mandate executing and clearing exchange traded derivative transactions.

When executing an exchange traded derivative trade the dealing desk will get a price quote from a variety of counterparties on the approved venues and counterparties list and execute with the best price on each occasion. If the broker selected is not an appointed clearing broker the trade is given up to one who is.

5.4 OTC Derivatives

OTC transactions are executed under bi-lateral legal agreements. Regulation is moving this into a cleared structure similar to exchange traded derivatives, but currently it remains efficient to operate under the bi-lateral structure.

Under the clearing structure legal documentation is not a prerequisite for OTC execution with a specific counterparty. This widens the range of counterparties available to the dealer for selection but is largely restricted to the larger banks which form the market in these instruments.

For bi-lateral arrangements execution is limited to those banks for which the correct documentation is in place.

OTC executions follow the same approach as fixed income. This involves assessing the expected fair market level, sourcing liquidity and where possible getting multiple competing quotes or working discretely with a single counterparty.

5.5 Spot and Forward Foreign Exchange ("FX")

The trading activity for FX markets is concentrated in the largest banking counterparties and QIL selects counterparties from this group of banks. In addition there are regional banks which specialise in currencies within their region. MTFs provide competitive access to these banks. On the MTF, the dealer selects candidate counterparties from their pricing history and performance, together with any market colour or regional strength.

QIL uses the MTFs to execute foreign exchange orders which facilitate a request for quote process from multiple counterparties simultaneously.

For some markets local regulation restricts the ability of a non-local investment firm to transact foreign exchange in the local currency. QIL delegates foreign exchange transactions in these markets to the fund's custodian which does have the necessary local market relationships.

QIL also delegates some transactional foreign exchange and all share class hedging to the custodian with standard dealing terms agreed in advance.

5.6 Collective Investment Schemes

Transactions in collective investment schemes are executed with the fund provider at the official price. These are routed through an electronic handling agent and do not go through the dealers.

5.7 Deposits

Deposits are only placed with institutions authorised under the QIL deposit policy. The deposit policy regulates the quality of institutions on the approved list and imposes a credit limit for each. Dealers have access to a range of counterparties to ensure the best rate available given any individual deposit characteristics.

Call money cash balances are held at the custodian.

6. Program Trades

The use of program trading is both an operationally and cost efficient method to execute a list of securities under a single instruction. Counterparties agree to execute the list of securities against the specified benchmark for a commission rate determined in competition. It is a particularly useful method for managing client cash flows and asset allocation changes which give rise to batches of trades which must be executed promptly at the prevailing market level.

In a principal program trade the counterparty agrees to execute the list of securities exactly in line with the agreed execution benchmark. The counterparty carries the risk of the execution against the benchmark and charges a commission appropriate for the risk.

In an agency program trade the counterparty works to achieve the agreed execution benchmark but does not guarantee

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to achieve it. In this case the risk the counterparty does not achieve the execution benchmark remains with the fund and therefore the commission rate is lower than for a principal program trade.

For agency program trades it is paramount that the broker selected is able to control the market impact of the program trade and achieve the execution benchmark.

7. Execution Algorithms and Smart Order Routers

Algorithms and associated Smart Orders Routers ("SORs") are used for the execution of some equity and exchange traded derivative orders. QIL utilises algorithms and SORs developed by our counterparties.

The algorithm used depends on the characteristics of the order and the prevailing market conditions and they are customised for each through the addition of control parameters. Where dealers select the algorithm they are responsible for understanding the methodology the algorithm uses.

Each algorithm is assessed and monitored by the dealers. This is initiated via an industry standard questionnaire which covers the execution methodology, including its routing logic, the execution venues and market participants it interacts with.

8. Agency Crossing

An agency cross is where one QIL fund passes a position to another fund. The price is set at a level which is beneficial to both sides of the cross, typically the market mid-price or a benchmark level. The execution is put through an independent counterparty of multi-lateral trading facility. The transaction includes a fee to cover the counterparty or execution platform administration and facilitation cost.

9. Commission Rates

The size of execution commissions depend on the following factors:

- Asset class;
- Execution venue;
- Individual markets; and
- Transaction type

QIL does not participate in any commission recapture programmes because such programmes may conflict with the principles of best execution and therefore the best interests of our clients.

Commission levels are lower for electronic executions in comparison to executing the same order manually.

Fixed income and foreign exchange transactions tend to be executed on a principal basis with zero commission. Counterparties are remunerated via the bid-offer spread with the dealers ensuring such spreads are not excessive.

Equity trades are typically executed within a range of commission rates, with the level dependent on the market concerned and the associated market costs.

The distinction between program and single stock orders also affects average commission levels. Agency program trades attract a relatively low commission charge in comparison to program trades executed on a principal basis. Single stock orders tend to attract higher commission rates than program trades.

Orders in emerging markets tend to attract a higher commission charge than those in developed markets. This is due to a lack of market transparency, limited broker access, local market structure and therefore the higher associated costs of trading and settling transactions.

Futures contracts are traded and cleared using a flat charge per contract.

QIL does not use commission sharing agreements.

10. Execution Monitoring

The dealers are the specialists with the most in depth knowledge of the markets and methods of execution. Therefore the dealers are responsible for achieving and improving the best execution of the orders they execute.

In addition, QIL's Compliance Advisory team is responsible for monitoring the execution outcomes for the dealing operation within QIL. The TMF has the responsibility to work to improve execution outcomes.

Both the dealers and the TMF monitor developments in the execution landscape to take into consideration the emergence of new venues, counterparties, functionalities and services.

The TMF reviews the Compliance Advisory team's execution monitoring reports quarterly and interviews representatives from the dealing operation to ratify the effectiveness of existing execution arrangements and to identify potential improvements.

In addition the TMF will analyse other investment firm venue execution reports and work with the dealers in order to identify alternative execution venue candidates.

11. Counterparty Approval Process

Only counterparties on the QIL approved list may be used for a transaction. Before a potential counterparty can be used, full due diligence is completed. This is initiated by a request from the dealing desk asking for the process of setting up a new counterparty to begin. This is followed by approval on several criteria including:

- Terms of business / Legal risk;
- Compliance risk;
- Financial risk; and
- Operational risk.

Once this process is completed and all risks investigated, the final approval is given by the TMF. The counterparty is then added to the approved list and set up as an approved broker within the order management systems.

12. Order Allocation, Priority and Timely Execution

No preference is given to any of the broad groups of clients or any one client over another.

All client orders are pre-allocated by the relevant fund manager within the order management system prior to being sent for execution. In instances where orders are partially filled, such fills are automatically allocated pro-rata by the order management system. QIL's Compliance team identifies and reviews any manually allocated orders.

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Post execution reallocation is only permitted in certain circumstances in line with the QIL Reallocation Policy. This Order Execution Policy requires documentation of the reallocation and Compliance authorisation.

New and outstanding orders for the same stock are treated with equal priority. When a new order arrives on a dealing desk for a stock in which there is an existing unexecuted component then any partial execution is booked off and the remaining order component merges with the new order component. The dealer then re-presents the merged orders to the market as a single new order.

QIL has procedures and compliance monitoring in place to ensure orders are picked up and assessed promptly by the dealers to ensure their timely execution. As standard, dealers must acknowledge and place orders in the market in a prompt, fair and expeditious manner, subject to market opening times.

Where market conditions mean it is not appropriate to place orders promptly, the dealer may elect to delay placing the order in the market.

The order management system records the order history with timestamps for each appropriate action. The system retains the historical data in line with regulatory requirements.

The manager places all subscriptions for Initial Public Offerings ("IPOs") and underwritings on the order management system as per any other trade and these are processed in the same way. The order management system automatically calculates and allocates partially filled orders on a pro-rata basis.

New issues in fixed income markets are regularly over-subscribed and allocations scaled back. Fund managers do not inflate new issue orders beyond the point of genuine portfolio demand in order to receive a better allocation. The order management system automatically allocates scaled back orders pro-rata subject to minimum issue sizes and de minimis allocations.

13. Stop Lists

Where QIL is given price-sensitive information on a particular stock, this stock and related instruments are placed on the relevant stop list, maintained and controlled by the Compliance team within the order management system, preventing funds from transacting in those instruments.

14. Information to clients

This Order Execution Policy forms part of the investment management agreement between QIL and its clients. By entering into an investment management agreement with QIL, the client accepts this Order Execution Policy including the possibility that some orders may be executed off venue, (see Appendix 1 for the list of venues).

QIL will provide copies of this Order Execution Policy on request.

15. Inducements and Conflicts of Interest

QIL operates a robust inducements policy and does not pay or receive any fees or services, related to the investment service it offers, which do not benefit the client or conflict with the best interests of the client.

QIL has a robust Conflicts of Interest Policy in place, copies of which are available on request.

16. Policy Review

The TMF formally reviews this Order Execution Policy annually or when a material change is proposed. The review assesses this Order Execution Policy and execution arrangements in order to ratify that it is reasonably designed to enable QIL to obtain the best outcome for the execution of client orders.

The review includes the addition or removal of execution venues or entities and any modifications to this Order Execution Policy, including the relative importance of the execution factors.

A material change means a significant structural change within QIL, the market or any regulation which would alter the relative importance of the execution factors or produce execution outcomes inconsistent with this existing Order Execution Policy. Any material changes will be reflected in the Order Execution Policy available on the client website on a timely basis.

QIL will make regular non-material adjustments to this Order Execution Policy, including changes to counterparty and venue lists.

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Appendix 1 – Venues and counterparties

Equities including Investment Trusts	
Barclays Capital Securities Limited	Liquidnet
Canaccord Genuity Ltd	Morgan Stanley & Co. International plc
Citigroup Global Markets Ltd	Numis Securities Ltd
Fidante Partners Europe Limited	Stifel Nicolaus Europe Limited
ITG Europe Ltd	UBS AG
Jeffries International Ltd	Winterflood Securities Ltd

Fixed Income	
Barclays Bank plc	JP Morgan Securities plc
Citigroup Global Markets Ltd	Morgan Stanley & Co. International plc
Danske Bank A/S	Nomura International plc
Goldman Sachs International	TD Securities Ltd
HSBC Bank plc	

Foreign Exchange	
Citibank N.A., London Branch	JP Morgan Securities plc
Citigroup Global Markets Ltd	Royal Bank of Scotland plc (NatWest)
Goldman Sachs International	Societe Generale, Paris
HSBC Bank plc	Toronto Dominion Bank, Toronto

Exchange Traded Derivative – Give Up Arrangements	
Barclays Bank plc	Merrill Lynch International
Goldman Sachs International	Morgan Stanley & Co. International plc
HSBC Bank plc	

OTC Derivatives (CDS & IRS)	
Barclays Bank plc	HSBC Bank plc
Citigroup Global Markets Ltd	JP Morgan Securities plc

Transition Management	
Citigroup Global Markets Ltd	Macquarie Capital (Europe) Ltd

Multi-Lateral Trading Facilities		
Name	**MIC**	**Class**
Liquidnet Europe	LIQU	Equity and Fixed Income
Market Access Europe Ltd	MAEL	Fixed Income
Bloomberg Trading Facility Ltd	BMTF	Fixed Income
FXALL	TRAL	Foreign Exchange