

# Best Execution Policy

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## River and Mercantile Asset Management LLP

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# Framework and context

## Introduction

This document (“the **Policy**”) sets out the approach taken by River and Mercantile Asset Management LLP (“**RAMAM**”) in ensuring that the best outcome is obtained for its clients on a consistent basis when executing client orders and transmitting orders to third parties for execution.

This Policy applies to RAMAM and any operating divisions. This Policy has been updated to take into account new rules arising as a result of the implementation of the Markets in Financial Instruments Directive 2014/65/EU (“**MiFID II**”) that came into force on 3 January 2018. Other FCA Rules and Guidance have been taken into account in designing this Policy, as have other EU regulations and ESMA Guidance where appropriate.

This Policy applies only to the execution or transmission of client orders in Financial Instruments, as defined in MiFID II, except where noted otherwise. This Policy applies to RAMAM’s dealings with Professional Clients and Retail Clients as RAMAM currently deals directly with Professional Clients and indirectly with Retail Clients (i.e. indirect investors via platforms / financial advisors).

RAMAM has opted for “professional client” status with respect to its brokers and counterparties, in order to receive adequate protection, particularly regarding the quality of order execution.

## The Best Execution obligation

FCA rules place a high-level obligation on firms to ensure that client orders are executed on terms that are most favourable to that client, which is referred to as the “best execution obligation”.

MiFID II has further enhanced this standard, by requiring that firms take “all sufficient steps” to obtain the best possible result for its clients on a consistent basis when executing and transmitting orders.

For the purposes of this Policy and in relation to the best execution rules more generally, the term “client order” or “order” should be understood to mean all orders in Financial Instruments that are carried out by RAMAM on behalf of a client, whether they are executed directly in the market or transmitted to another firm to execute on RAMAM’s behalf. This includes orders that arise in relation to discretionary portfolio management activities, and therefore originate within RAMAM rather than with the client. In this situation, RAMAM still has a best execution obligation in relation to the execution of this order.

## Application of FCA and EU regulations

For investment firms authorised under MiFID, the best execution rules relating to direct execution are contained in Article 27 of MiFID II and the corresponding level 2 provisions<sup>1</sup>. Separate requirements apply when client orders are transmitted to a broker (“indirect execution”)<sup>2</sup>. These requirements have been implemented by the FCA in the UK in COBS 11.2A.

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<sup>1</sup> For example, Articles 64 and 66 of the Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 and Commission Delegated Regulation 2017/576 (Regulatory Technical Standard 28).

<sup>2</sup> Set out primarily in Article 65 of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016

## Direct and indirect execution

The nature of the best execution obligations differs depending on whether the Firm is executing orders directly, or whether these orders are being transmitted to third parties (i.e. brokers) for execution.

Direct execution includes situations where RAMAM interacts directly with other counterparties to the trade, without going through a broker, and in addition covers situations where RAMAM uses its own membership of a Trading Venue<sup>3</sup>, or otherwise places an order directly with an Execution Venue<sup>4</sup> in order to execute the trade.

Indirect execution refers to the practice of transmitting orders to brokers, for which the broker is then responsible for execution. These orders may be transmitted to the broker by a variety of methods, including by telephone, Bloomberg chat, email and electronic order entry and transmission systems (e.g. FIX).

RAMAM primarily transmits orders to brokers, but in some situations will also directly execute orders. The list of instruments in which RAMAM trades, including a breakdown of which instruments are executed directly and indirectly is included below in Table 1. RAMAM will only execute orders directly in relation to FX hedging for non-restricted currencies. A restricted currency is a currency that is mainly used for domestic transactions, not freely traded on an international forex market, or is not allowed a free floating exchange rate due to certain restrictions, for example government restrictions. Restricted currencies are sent to RAMAM's custodian for execution.

# Obtaining the Best Possible Result

## Internal Organisation

In the context of taking sufficient steps to obtain the best possible result for its clients, RAMAM has chosen to create a dedicated dealing desk that operates independently from the fund managers in order to optimize the execution services and reduce conflict of interest. As a consequence, no order may be transmitted by the portfolio managers to the dealing desk with instructions imposing the use of a specific intermediary (broker or counterparty), which would be in contradiction with the "best execution obligation".

## Selection of the list of authorized brokers

In order to add a new execution broker or counterparty to the approved list, the dealing desk needs to send a request to the Compliance department that will run a risk and technical capabilities assessment according to its on-boarding process. The Counterparty Committee decides on additions, removal and bans of counterparties.

## Counterparty Committee

The Counterparty Committee meets at a minimum on a quarterly basis. It is composed of members of the Dealing desk, Operations and Compliance teams. The Chief Operating Officer chairs the Counterparty Committee.

The Counterparty Committee's responsibilities include (but are not limited to) the following:

- Review any request to add a new broker or counterparty to the approved list of brokers or counterparties

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<sup>3</sup> A Trading Venue is defined as a Regulated Market, Multilateral Trading Facility (MTF) or Organised Trading Facility (OTF).

<sup>4</sup> Execution Venues include Regulated Markets (i.e. exchanges), MTFs, OTFs, systematic internalisers, market makers and 'any other liquidity provider or an entity that performs a similar function in a third country'.

- Review the results of broker performance and any qualitative assessments undertaken
- Review overall costs of execution and any renegotiated commissions
- Discuss whether any changes are required to the Best Execution Policy or RAMAM's underlying execution arrangements, and whether any further remedial action is required.

The Chief Operating Officer :

- based on the information provided by the committee, will take the decisions to add, remove or ban brokers from the approved list.
- evaluate if any changes are required to the Best Execution Policy or RAMAM's underlying execution arrangements, and whether any further remedial action is required.

### **Fair Allocation, aggregation of orders and internal crossed trades**

All trades initiated by RAMAM are allocated prior to sending to the dealing desk and time stamped in the systems in accordance with the RAMAM Fair Allocation Policy. RAMAM's Fair Allocation policy requires orders to be allocated fairly among clients. Rules regarding partially filled orders are described in the RAMAM Fair Allocation Policy.

RAMAM is not authorised to deal on its own account. RAMAM does not have the FCA "dealing as principal" permission. Therefore, order aggregation and allocation relates to situations where there are multiple client orders only. When aggregating and allocating multiple client orders RAMAM will ensure that:

- the aggregation of orders is intended to work to the advantage of any client whose order is to be aggregated and allocated;
- aggregation and allocation procedures enable fair allocations to be made where the volume and price of any aggregated order determines allocations or where there are any partial executions (i.e. sequentially and proportionately).

RAMAM has procedures to prevent the reallocation of orders between clients where there is the potential for detriment to any client.

RAMAM may seek to execute all or part of an order by undertaking "agency cross-transactions" (i.e. a transaction where we match, at the same price and on the same terms, the buy and sell orders of two or more clients for whom we are acting as agent). We will only undertake such a transaction if it is beneficial to both parties and the order has been executed at a fair price. All relevant scenarios are presented in the Internal Cross Trade Policy. Internal crosses are transacted in the market and are fully transparent.

### **Acting on Specific Client Instructions**

If RAMAM has received specific instructions from a client in relation to how its order should be executed, RAMAM's best execution obligations will be treated as satisfied in respect of the part or aspect of the order to which those instructions relate. RAMAM is not released from its best execution obligations in respect of any other part or aspect of the client order that is not covered by such instructions. In certain circumstances, specific instructions from a client may prevent RAMAM from obtaining the best possible result in relation to that client order.

## Venues

RAMAM believes that its order execution arrangements are most effective when it is able to access appropriate sources of liquidity and that restricting the execution of orders to Regulated Markets<sup>5</sup> and MTFs<sup>6</sup> has the potential to have a detrimental effect on the quality of the execution that RAMAM can provide when transmitting orders for execution. The performance of venues selected by each counterparty is regularly monitored during the counterparty evaluation.

RAMAM executes orders directly in relation to FX hedging for non-restricted currencies on a single venue. RAMAM uses the venue in order to proceed to "Request for Quotes" in order to put several counterparties in competition and get the best price. RAMAM monitors alternative venues on an ongoing basis to determine whether execution quality could be improved by switching venue.

RAMAM requires prior consent from its clients to execute orders outside of a Regulated Market or MTF.

## Execution Factors

RAMAM will take into account a range of different factors in deciding how to execute an order. These include:

- price;
- costs;
- speed;
- likelihood of execution or settlement;
- size of the order;
- nature of the order;
- governing documentation (terms); and
- any other consideration relevant to the efficient execution of the order.

RAMAM may determine the relative importance of each factor using the following criteria:

- Clients characteristics and restrictions;
- The characteristics and nature of client orders, including whether any specific instructions are given;
- The characteristics of the Financial Instruments that are subject to client orders; and
- The characteristics of the Execution Venues to which client orders can be directed.

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<sup>5</sup> Regulated Markets: 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, and which is authorised and functions regularly and in accordance with the provisions of Title III of MiFID. (e.g. NYSE Euronext, LSE etc.).

<sup>6</sup> MTF: Multilateral Trading Facility, which is a system other than a regulated market operated by an investment service provider or an exchange to organise the matching of buy and sell orders relating to financial instruments. (e.g. Chi-X, Turquoise, etc.).

Table 1 summarizes the Execution strategy and factors by financial instrument:

Table 1 : Execution matrix by class of instruments

| <b>Financial Instruments</b>                        | <b>Market Facing ?</b> | <b>Execution strategy</b>   | <b>Venues Type*</b> | <b>Execution factors (ranked by importance)</b>   |
|---|------------------------|---|---------------------|---|
| <b>Equity</b>                                       | No                     | Orders are sent to authorised selected intermediaries   | RM MTF SI           | Price, Likelihood of execution and settlement, Liquidity and size, Costs - implicit and explicit, speed / latency |
| <b>ETF</b>  | No                     | Orders are sent to authorised selected intermediaries, or Request For Quotes from several authorised counterparties | RM MTF SI           | Price, Likelihood of execution and settlement, Liquidity and size, Costs - implicit and explicit, speed / latency |
| <b>Foreign Exchange (Non restricted currencies)</b> | Yes                    | Request For Quotes from several authorised counterparties   | RM MTF              | Price, Likelihood of execution and settlement, Speed/Latency, Liquidity and size, Costs - implicit and explicit,  |
| <b>Index Futures</b>                                | No                     | Orders are sent to authorised selected intermediaries   | RM MTF SI           | Price, Likelihood of execution and settlement, Liquidity and size, Costs - implicit and explicit, speed / latency |

(\*) RM: Regulated Market (e.g. NYSE Euronext, LSE etc.).

MTF: Multilateral Trading Facility, (e.g. Chi-X, Turquoise, etc.).

SI: Systematic Internaliser, which executes client orders outside of RMs and MTFs by acting directly as a counterparty and committing its own capital.

In certain circumstances RAMAM, in its absolute discretion, may determine the relative importance of best execution factors i.e. promoting factors other than price, to achieve the best possible result.

## Use of trading technology

RAMAM has the opportunity to use different dealing facilities' technologies to allow efficient dealing and may reduce transaction costs, reduce risk of execution irregularities and enable quicker execution.

### **Algorithmic trading**

Algorithmic trading is the use of computer programs for entering trading orders with the computer algorithm deciding on certain aspects of the order such as the timing, price, or even the final quantity of the order. It can be used to divide up a large trade into several smaller trades in order to manage market impact, opportunity cost and risk. RAMAM transmits orders to few algo providers and execution strategies when it considers that the liquidity profile of the security traded fits with the algo strategy. The performance of trades transmitted via algo is regularly monitored during the counterparty evaluation.

### **Program Trading**

Program Trading is an option to trade a basket of stocks where subscriptions and redemptions occur that are of sufficient size relative to the portfolio, in order to adjust the position sizes within the portfolio. This is an operationally efficient and cost effective method of achieving a desired outcome without having to trade each position within the portfolio individually.

## **Best Execution monitoring**

In order to make sure that RAMAM takes sufficient steps to obtain the best execution for its clients, RAMAM assesses the quality and performance of its brokers.

On an ongoing basis, the Dealing Desk monitors the executions undertaken by the brokers during the life cycle of the order.

On a weekly basis, the Dealing desk reviews the results of quantitative calculations for equity, ETF and index future transactions for each broker. RAMAM uses Trading Cost Analysis (TCA) to facilitate this which compares the orders to a sophisticated benchmark in order to calculate the performance for each order. This TCA data is aggregated to compare brokers efficiently.

On a monthly basis, the Dealing Desk reviews the Request for Quotes (RFQ) analysis and checks prices (when available for orders sent to the Custodian). A RFQ is a standard financial process whereby suppliers are requested to start pricing a financial instrument. RAMAM will analyse the process and selection of this pricing.

On a monthly and quarterly basis, the Compliance department of RAMAM separately reviews the results of this quantitative assessment (TCA/RFQ analysis/price check). In addition, qualitative comments and technical capabilities for each broker is collected from the Dealing Desk and Operations department. The output of these checks is provided to the Counterparty Committee.



The table 2 below presents the best execution assessment by class of instrument.

Table 2 Best execution assessment method

| <b>Financial Instruments</b> | <b>Quantitative Best Execution assessment</b> | <b>First line periodicity (Dealing Desk)</b> | <b>Second line periodicity (Compliance)</b> |
|------------------------------|---|--|---|
| <b>Equity</b>                | Technical evaluation<br>TCA analysis          | Weekly                                       | Monthly                                     |
| <b>ETF</b>                   | Technical evaluation<br>TCA analysis          | Weekly                                       | Monthly                                     |
| <b>Foreign Exchange</b>      | RFQ analysis<br>Price checking when available | Monthly                                      | Monthly                                     |
| <b>Index Futures</b>         | Technical evaluation<br>TCA Analysis          | Weekly                                       | Monthly                                     |

## Demonstrating best execution to clients and the FCA

RAMAM is obliged by FCA rules<sup>7</sup> to be able to demonstrate to clients, on request, that all trades have been executed in accordance with this Policy. This obligation does not generally extend to the underlying investors in any fund although such information can be provided to them upon request. It does however extend to the ICVC, which should be considered the RAMAM's client for these purposes.

In relation to MiFID business only there is a further new requirements<sup>8</sup> that RAMAM must be able to demonstrate to the FCA, upon request, that best execution has been achieved. This requirement goes beyond demonstrating that this Policy has been adhered to.

RAMAM considers that this Policy, along with the detailed monitoring of execution quality undertaken and the reports escalated to and ratified by the Counterparty Committee are sufficient to demonstrate RAMAM's adherence to the Policy. RAMAM also considers that this Policy demonstrates more widely that RAMAM is taking all sufficient steps to provide best execution to its clients and that this is being delivered on a consistent basis.

## Best Execution Policy Review

The Policy has been reviewed and approved by RAMAM's Executive Committee and will be reviewed going forward:

- At least annually
- In case of new activity or financial instrument(s)

<sup>7</sup> COBS 11.2A.32

<sup>8</sup> COBS 11.2A.32

- In case of any significant change of organisation or change in the regulation that affects the best execution process

## Policy disclosure and consent

In accordance with the relevant contractual terms, RAMAM is required to obtain clients' prior consent to this Policy. The prior consent is a part of our KYC process with clients to obtain explicit written consent.

Any update of the policy will be available on [RAMAM website](#).

## MIFID II Reporting

On an annual basis, RAMAM will produce a Best Execution Report detailing Top 5 brokers/Venues by financial instrument type and a summary of the broker assessments will be available on the website.

Please note that all material produced by River and Mercantile is directed at, and intended for the consideration of, professional clients within the meaning of the Financial Services and Markets Act 2000 ("FSMA"). Retail or other clients must not place any reliance upon the contents.

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