River and Mercantile Derivatives

Execution Policy

March 2021

RIVER AND MERCANTILE
DERIVATIVES

1 Introduction

This document ("the Policy") sets out the approach taken by River and Mercantile Derivatives ("the Firm" or "RMD"), a division of River and Mercantile Investments Limited, in ensuring that the best outcome is obtained for its clients on a consistent basis when executing trades for its clients.

This Policy reflects the fact that the Firm:

- deals with professional clients only;
- does not transmit orders to brokers unless directed to do so by clients;
- only undertakes direct execution with counterparties or on trading venues;
- deals with and trades for its clients using discretion granted under investment management agreements ("IMAs"); and
- does not trade on its own account.

1.1 Best Execution Obligation

FCA rules place a high-level obligation on firms to ensure that client trades 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 trades.

The Firm's commitment to provide best execution does not impose any additional fiduciary duty upon the Firm over and above the regulatory obligations in place or any terms agreed on a contractual basis between the Firm and its clients.

1.2 Classes of Financial Instrument

The complete list of the different classes of MiFID II financial instruments is contained in Appendix 2 of this Policy, together with the Firm's assessment of which classes are actively traded by the Firm. The Firm executes all trades directly in the market unless directed by a client to place trades with one or more brokers or counterparties.

Where appropriate, this Policy will differentiate between the treatment of each of the classes of financial instrument.

1.3 Application of Policy to Non-Financial Instruments

The Firm trades on behalf of clients in the following investments that are not financial instruments as defined in MiFID II:

- Spot FX

1.4 Execution Factors

The Firm is obliged to seek the best possible result for its client in relation to each trade. What constitutes the best possible result, however, may vary depending on the situation, and this may not always equate to obtaining the best price or the lowest cost. The Firm is therefore required to consider and assess the relative importance of the relevant 'execution factors' in

respect of each class of financial instrument in which it trades. The Execution Factors, some of which are listed in FCA rules[1], are as follows:

- **Price** – This is the price at which a transaction is executed. Where the price has varied across the transaction the blended average price should be considered.
- **Costs** – This includes explicit external costs such as exchange or clearing fees, as well as implicit costs such as spreads and slippage. This should be restricted to costs borne by the client and does not include the Firm's internal costs relating to trading.
- **Speed** – This refers to the amount of time that elapses between the transmission of term sheets and the successful receipt of executable quotes.
- **Likelihood of execution and settlement** – This refers to Firm's estimation of the probability that the trade will be successfully completed either in whole or in part.
- **Size** – For large trades or illiquid instruments only partial execution may be achieved, and this may vary between venues and counterparties. Where the whole trade is unlikely to be executed, the size of the potential execution will increase in importance.
- **ESG** – Environmental, social and governance factors should be considered when selecting instruments or issuers. Lower ESG ratings may lead to a different instrument, quantity or issuer being selected.
- **Counterparty diversification** – the need to minimise or diversify counterparty exposure. The Firm may be required to ensure counterparty diversification under IMA requirements or as the Firm may carry out such diversification under general portfolio management.
- **Nature of the trade and any other relevant considerations** – This is a broad category that covers any other factor not listed above that the Firm may wish to prioritise in order to achieve the best result for its clients. Examples of this may be the need to maintain anonymity and/or reduce the market impact of the trade, and the need to meet regulatory requirements such as trade publication and reporting.

The prioritisation of the above factors may differ on a trade by trade basis.

Further information is given on the Firm's prioritisation of the execution factors in different situations in sections 2 and 3 below.

1.5 Execution Criteria

FCA rules[2] also set out the 'execution criteria' that the Firm must take into account when executing a trade. The Execution Criteria will vary potentially from client to client and from trade to trade and will therefore need to be assessed on a continual basis. These are defined as set out below:

- The characteristic of the client's IMA with RMD – Factors such as the type of financial instrument, size and urgency of the trade are likely to be relevant here as well as counterparties' credit ratings. In addition, if the trade is a securities financing transaction then this is likely to require special treatment.

[1] See COBS 11.2A.2(2) for MiFID investment business.
[2] See COBS 11.2A.8 for MiFID investment business

- The characteristics of the financial instrument – Intrinsic differences in the behaviour and attributes of different financial instruments mean that they will need to be treated differently. Market conditions should also be considered, such as whether there is liquidity at the size of trade being contemplated, and whether there is significant volatility in the market;
- The characteristics of the execution venues and counterparties – Relevant considerations here might be the reputation and reliability of the venue, the credit rating of the counterparty, whether the trade will be subject to pre- and post-trade transparency, and the types of counterparty that the trade is likely to be executed with.

This Policy sets out in the following sections how the Firm applies the execution factors and execution criteria to achieve the best possible results for its clients on a consistent basis.

1.6 Relying on a Single Venue

The Firm relies on a single venue or a single counterparty in the following scenarios:

- Trades in listed government bonds – the Firm uses Tradeweb MTF as the sole trading venue on the basis that it has a large number of market participants or liquidity providers.
- Unwinding (partial or full) or re-couponing existing derivative positions – in this case the derivative contract(s) already exist between the counterparty and the Firm's client in question. Hence, any reduction in the traded notional can only happen with the counterparty that position is with. In unfavourable pricing scenarios, the Firm may choose not to trade or trade economically offsetting positions with another counterparty.

2 Execution Process

2.1 Prioritisation of Execution Factors

The prioritisation of execution factors varies depending on the instrument type that the Firm is trading. The execution factors in consideration are listed section 1.4. These are set out below:

Instrument	Main Execution Factors
Debt Instruments	Price, Costs, Speed, Execution and Settlement, ESG
Interest Rate Derivatives	Nature of trade, Counterparty diversification, Price, Speed, Size, Execution and Settlement, ESG
Credit Derivatives[3]	Nature of trade, Counterparty diversification, Price, Speed, Size, Execution and Settlement, ESG
Equity Derivatives	Nature of trade, Counterparty diversification, Price, Speed, Size, Execution and Settlement, ESG
Currency Derivatives	Nature of trade, Counterparty diversification, Price, Speed, Execution and Settlement, ESG
Spot Foreign Exchange	Execution and Settlement, Price, ESG
Cash Funds	Nature of trade, Costs, Execution and Settlement, ESG

Under certain circumstances, the Firm has discretion to override the relative importance of the execution factors. [4]

2.2 Counterparty Selection

Potential counterparties will be selected based on the Firm's assessment of the execution criteria in relation to that particular trade, and in accordance with its prioritisation of the execution factors. This will typically lead to counterparties being selected that are expected to provide the most favourable outcome for the client in terms of the price/cost of the trade, although other factors will be taken into consideration.

Counterparties will be selected from those available on the approved counterparty list which is updated separately from time to time. In the case of trading derivatives, only the counterparties that have ISDAs with the relevant client(s) can be selected.

The Firm does not ordinarily use brokers for execution. However, where the client has explicitly directed the Firm to use one or more brokers to execute a trade then the Firm's best execution obligation ceases to apply.

2.3 Executing with Counterparties or on Trading Venues

The Firm can transmit trade termsheets to counterparties and execute trades in the following ways:

- Secure electronic platforms
- Telephone

[3] Excludes Credit Default Swaps (CDSs), which the Firm does not trade.

[4] These circumstances will vary depending on the characteristics of the trade as well as the factors listed in section 3.

- Email
- Bloomberg Chat
- FIX
- OTCX
- Secure industry standard messaging mechanisms

2.4 Over the Counter (OTC) Trades

The Firm typically executes OTC trades in swaps (interest rate, inflation, assets, total return), FX forwards and equity derivatives under ISDA arrangements.

The Firm acts in a discretionary capacity for clients when executing trades in OTC markets. This involves using the Firm's experience and professional judgement to determine which counterparties to approach to quote a price. OTC derivative trades are executed under ISDA arrangements between the Firm's clients and the relevant counterparties. The ISDA may be a direct relationship between the Firm's client and the counterparty (a "principal ISDA") or the client may use one of the Firm's pre-negotiated (with counterparty) agency/umbrella ISDA (an "agency ISDA"). The Firm's IMA with its clients may contain restrictions in respect of counterparties and require counterparty diversification.

Where possible, multiple counterparties will be approached in order to put them in competition with each other and therefore provide a price discovery mechanism for the trade in question. Generally, the best price will be selected from this list, unless this is overridden by the prioritisation of other execution factors over price due to the specific characteristics of the trade, including the need for counterparty diversification. An audit trail of all quotes received prior to execution will be kept on record.

The Firm may be required to unwind partially or completely certain existing derivative trades. This typically involves either partially reducing the notional of a given derivative or to remove it completely. Since these trades are typically not fungible and not subject to compression (which requires clearing) it is highly probable that the Firm will only approach the counterparty with which the client has the relevant trade on that the Firm wishes to unwind. Similarly, where the Firm wishes to "re-coupon" any existing swap positions to extract a significant build-up of net present value to the client, the Firm is required to approach the counterparty with which the relevant set of positions have been traded.

In both the unwind/partial unwind case and the re-couponing case it is generally not possible to obtain multiple quotes. Internal models are used to establish the fair price for the trade and therefore to assess the fairness of the prices being offered. These models are based on external market data and/or externally verifiable reference prices, where available. A record of these internal models and fair price calculations are maintained for use in the periodic monitoring of execution quality.

2.5 Direct Execution on a Trading Venue

The Firm has direct membership of a number of trading venues. The list of approved execution venues is maintained separately and updated from time to time. The execution venue will be selected from this list based on the Firm's assessment of the execution criteria in relation to that particular trade, and in accordance with its prioritisation of the execution factors. This will typically lead to the execution venue being selected that is expected to provide the most favourable price at which to execute the trade.

Where there is only one execution venue available for execution of the trade, the Firm will attempt to use that single venue to execute that trade. However, the Firm retains the option to revert to off-venue trading where it is allowed to do so and deems it beneficial for the client to undertake this method of execution.

2.6 Other Investments Outside the Scope of MiFID II

The Firm typically uses the client's custodian to undertake spot FX transactions. This minimises settlement risk and execution risk. The spot FX market is large and highly liquid for the major currencies that the Firm's clients may deal in.

2.7 Trade Allocation

The Firm does not place orders with brokers unless directed to do so by a client. A client may name one or more brokers with whom to place orders. In these situations, the Firm's obligation to achieve best execution will not apply.

The Firm can aggregate trades from multiple clients when executing transactions. This aggregation is done under the discretion provided to the Firm by its clients within the limits of the IMA.

The allocations of units of instruments or derivatives is done in advance of executing an aggregated transaction. If the Firm combines client trades together to form one deal, each trade within that allocation will get the average executed price.

3 Other Considerations Affecting Choice of Method of Execution

3.1 Large Transactions

Where the size of the trade is large compared to the available liquidity in the market for the instrument in question, the execution criteria of 'size' will become of critical importance. This may mean that price and cost are deprioritised to an extent and that trades may be executed in a manner that prioritises achieving a higher executed quantity and overall the best possible result for the client. The Firm will still make every effort to achieve the best possible price for the trade, and at the lowest cost, but this strategy may result in a worse average unit price being achieved than if a lower transaction size was settled upon. This process will take place within certain limits, to be determined at the time of executing the trade, and it is unlikely that any transaction will ever be executed without any reference whatsoever to the price and cost. The investment thesis and trade rationale will determine the maximum or minimum price that the Firm is willing to pay or receive in the transaction.

It is rare for the Firm to enter into large in scale transactions.

3.2 Thinly Traded Markets

Where instruments are not fungible and/or there are limited execution venues, the Firm will focus on the likelihood and size of execution (and possibly speed, dependent on the external environment) to deliver best execution. For example, in thinly traded markets, where price points are not available the best possible result for the client may be achieved by focussing on the immediacy and likelihood of execution and settlement if only a single counterparty is willing to take the other side of the trade.

3.3 Volatile Markets

Where markets are seen to be particularly volatile, either across the market or just in relation to the instrument that is the subject of the trade, then the speed of execution will be escalated in importance. This is because in this situation the price could move rapidly against the client, or the liquidity could evaporate, meaning that any delay in execution could result in either a worse price being achieved or in the desired trade not being completed at all.

3.4 Market Crises

Where there is an interruption in trading at a major exchange, or the possibility of turbulent markets due to the failure of counterparties then the likelihood of settlement may be the execution factors focussed on. The management, diversification and minimisation of counterparty risk will also become a critical issue in this situation.

3.5 Cross Transactions between Clients

The Firm does not engage in cross-trades between clients. All trading takes place through counterparties or on trading venues and there is no internal crossing.

3.6 Counterparty Exposure

On occasion, it may be necessary to alter the method of execution in order to manage the exposure of the client to a particular counterparty. This may be necessary either for general risk management purposes, as the exposure is deemed to be too concentrated, or due to a change in credit rating of a counterparty or other market events that lead the client to want

to reduce its exposure. Clients may also specify counterparty exposure limits. This may on occasion result in trades being executed with a counterparty other than the one that appeared to be offering the best price and cost.

3.7 Regulatory Compliance

There may also be other regulatory reasons why it is necessary to exclude certain counterparties from the pool of counterparties being considered for a particular transaction, regardless of the other terms that they are offering. This may be necessary for example to ensure that the Firm's obligations are fulfilled with respect to pre- and post-trade transparency or with respect to transaction reporting under either MiFID II, EMIR or the SFTR.

4 Governance and Oversight

4.1 Oversight

The Policy, the underlying trading arrangements in place to provide best execution to clients, and the first line monitoring undertaken to demonstrate best execution is overseen by the Derivatives management team.

The Derivatives management team is responsible for ensuring that the Firm's internal policies and procedures deliver best execution, annually reviewing the Policy, monitoring the effectiveness of counterparties and execution venues and seeking to identify trends in execution quality or potential deficiencies in the Firm's processes to deliver continual improvement in the execution quality obtained for the Firm's clients.

4.2 Ongoing Monitoring of Execution Quality

The ongoing monitoring of execution quality and first line controls are undertaken by the Firm's portfolio managers with independent scrutiny carried out by the Firm's compliance team as the second line of defence. The first and second lines of defence are therefore primarily responsible for monitoring of best execution on an ongoing basis. The output from this monitoring is then fed back to the Derivatives management team and portfolio managers.

The Firm's front-office staff receive training on the Firm's best execution obligations, policies and processes (including this Policy). Additionally, the Firm's portfolio management team have a suite of tools in order to assist in the delivery of best execution including pre-trade analytics, trading systems and pricing tools.

Where any exceptions or outliers are identified, these are discussed within the front office team. This may lead to remedial actions after discussions with the Derivatives management team.

5 Client Communications and Disclosures

5.1 Disclosure of Appropriate Information to Clients

The Firm's policy is to meet the disclosure requirements imposed by MiFID II by providing a copy of this Policy to its clients.

5.2 Notification of Material Change

As noted above, the Firm reviews this Policy at least annually, making updates where necessary. This review is performed by the Derivatives management team. Where changes are made, the Derivatives management team also considers, as part of their review, whether the changes are material enough to require separate notification to clients.

5.3 Specific Client Instructions

Since the Firm only acts on a discretionary basis and makes all investment decisions itself, as per the terms of the IMAs in place, specific instructions are not likely to be received. The Firm will, however, act in accordance with the investment mandate agreed with the client.

5.4 Disclosure of Inducements, Conflicts and Fees

The Firm handles all potential conflicts of interest that can arise in the execution of client trades according to its Conflicts of Interest Policy; a copy of the Conflicts of Interest Policy is available at the link below:

http://riverandmercantile.com/about_the_group/corporate_governance

The Firm is not permitted to receive any benefit for routing client trades to a particular trading or execution venue as this could be considered an inducement and conflict of interest. Payment for trade flow is also therefore prohibited and the Firm does not engage in this practice.

Appendices

6 Appendix 1 – Financial Instruments as per Annex 1 Section C of MiFID II

1. Transferable securities;
2. Money-market instruments;
3. Units in collective investment undertakings;
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
5. Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (other than by reason of a default or other termination event);
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a MTF, or an OTF, except for wholesale energy products traded on an OTF that must be physically settled;
7. Options, futures, swaps, forwards26 and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of this Section and not being for commercial purposes, which have the characteristics of other derivative financial instruments;
8. Derivative instruments for the transfer of credit risk;
9. Financial contracts for difference;
10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF;
11. Emission allowances consisting of any units recognised for compliance with the requirements of Directive 2003/87/EC (Emissions Trading Scheme)

7 Appendix 2 – Classes of Financial Instrument as per Annex 1 of RTS 28

	DIRECT EXECUTION: Firm executes trades in this instrument directly	**INDIRECT EXECUTION:** Firm transmits orders in this instrument to brokers to execute	**NOT APPLICABLE:** Firm does not trade in this instrument
(a) Equities – Shares & Depositary Receipts			
(i) Tick size liquidity bands 5 and 6 (from 2000 trades per day)			X
(ii) Tick size liquidity bands 3 and 4 (from 80 to 1999 trades per day)			X
(iii) Tick size liquidity band 1 and 2 (from 0 to 79 trades per day)			X
(b) Debt instruments			
(i) Bonds	X	X[5]	
(ii) Money markets instruments	X		
(c) Interest rates derivatives			
(i) Futures and options admitted to trading on a trading venue	X		
(ii) Swaps, forwards, and other interest rate and inflation derivatives	X		
(d) credit derivatives			
(i) Futures and options admitted to trading on a trading venue	X		
(ii) Credit default swaps			X
(iii) Other credit derivatives based on government bonds or indices on government bonds	X		

[5] The Firm does not ordinarily use brokers for execution. However, where the client has explicitly directed the Firm to use one or more brokers to execute a trade then the Firm's best execution obligation ceases to apply.

(e) currency derivatives			
(i) Futures and options admitted to trading on a trading venue	X		
(ii) Swaps, forwards, and other currency derivatives	X		
(f) Structured finance instruments			X
(g) Equity Derivatives			
(i) Options and Futures admitted to trading on a trading venue	X		
(ii) Swaps and other equity derivatives	X		
(h) Securitized Derivatives			
(i) Warrants and Certificate Derivatives			X
(ii) Other securitized derivatives			X
(i) Commodities derivatives and emission allowances Derivatives			
(i) Options and Futures admitted to trading on a trading venue			X
(ii) Other commodities derivatives and emission allowances derivatives			X
(j) Contracts for difference			X
(k) Exchange traded products (Exchange traded funds, exchange traded notes and exchange traded commodities)			X
(l) Emission allowances			X

(m) Other MiFID II instruments:			
(i) Units in cash funds	X		
(n) Other instruments outside the scope of MiFID II:			
(i) Spot FX	X		

IMPORTANT NOTICE