Pacific Capital Partners Limited

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Order Execution Policy

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Order Execution Policy

1. Introduction

This policy sets out the approach taken by Pacific Capital Partners Limited (PCP) 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 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. It also reflects the fact that the firm deals with professional clients only.

2. Best execution obligation

The 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' should be understood to mean all orders in financial instruments, whether they are executed direct in the market or transmitted to another firm to execute on the firm's behalf that are carried out on behalf of a client. This includes orders that arise in relation to discretionary portfolio management activities, and therefore originate within the firm rather than with the client. In this situation, the firm still has a best execution obligation in relation to the execution of this order.

Reference:

- FCA Handbook COBS11.2A.34
- MiFID II Delegated Organisational Regulations: Art 65
- MiFID II Directive: Art 27

3. Direct and indirect execution

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

Direct execution includes situations where the firm interacts directly with other counterparties to the trade, without going through a venue, and in addition covers situations where the firm uses its own membership of a trading venue, or otherwise places an order directly with a trading venue in order to execute the trade. Trading venues include:

- A regulated market
- A multilateral trading facility (MTF)
- An organised trading facility (OTF)
- A systematic internaliser
- A market maker

- Any other liquidity provider
- An entity performing similar functions to the above in a third country

Indirect execution refers to the practice of transmitting orders to counterparties, for which the counterparty is then responsible for execution. These orders may be transmitted to the counterparty by a variety of methods, including by Bloomberg chat, email and electronic order entry and transmission systems (e.g. FIX). It is the firm's policy not to undertake any voice trading (i.e. per telephone).

In performing discretionary portfolio management services, the firm primarily transmits orders to counterparties for execution. The list of instruments in which the firm trades, including a breakdown of which instruments are executed directly and indirectly, is included in Appendix 1.

4. Classes of financial instruments

The firm currently trades actively in the following classes of financial instruments:

- Sovereign Bonds
- Currency derivatives
- Exchange Traded Funds (ETFs)
- Collective Investment Schemes (CIS)
- Equities / Investment trusts

Of these instruments, all orders with the exception of orders in Collective Investment Schemes, are primarily transmitted to counterparties for execution and the firm therefore engages in indirect execution in relation to these instruments.

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 and which of these are directly and/or indirectly executed.

Where appropriate, this policy will differentiate between the treatment of each of the classes of financial instrument set out above.

5. Application of policy to non-financial instruments

The MiFID II best execution requirements only apply in relation to financial instruments as defined in MiFID II. However, the firm is subject to a general regulatory obligation to treat clients fairly as well as to manage any conflict of interest, and as such endeavours to deliver the best result to clients in all transactions.

The firm trades on behalf of clients in the following investment instruments that are not financial instruments:

- Spot FX

The firm may choose to execute transactions in spot FX both directly and indirectly. The firm's best execution approach is designed to achieve the best market price.

6. Execution factors

The firm is obliged to seek the best possible result for its clients 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 defined in the FCA rules 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 will be considered.
- **Costs** – This includes explicit external costs such as counterparty, exchange or clearing fees, as well as implicit costs such as spreads and slippage. This is 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 trade order and the successful execution of that trade.
- **Likelihood of execution and settlement** – This refers to the firm’s estimation of the probability that the trade order will be successfully completed either in whole or in part.
- **Size** – For large orders or illiquid instruments only a partial fill may be received and this may vary between counterparties and venues. Where the whole trade order is unlikely to be filled, the size of the potential fill will increase in importance.
- **Nature of the order and any other relevant considerations** – This is a broad category that covers any other factor not listed in the regulations 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, the need to minimise or diversify counterparty exposure, and the need to meet regulatory requirements such as trade publication and reporting.

The prioritisation of the execution factors should be reviewed at least on an annual basis and updated where necessary. Further information is given on the firm’s prioritisation of the execution factors in different situations.

7. Execution criteria

The FCA rules also set out the ‘execution criteria’ that the firm must take into account when executing a trade. These are the particular characteristics of each trade order which need to be taken into account before applying the firm’s execution process to achieve the best possible result for the client, where the ‘best result’ is defined by reference to the firm’s prioritisation of the execution factors as set out above. 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** – For example whether they have been classified as professional and whether they are a natural person, institutional investor or a fund. The level of sophistication, trading frequency and size of portfolio may also be relevant.
- **The characteristic of the client order** – Factors such as the type of financial instrument, size and urgency of the order are likely to be relevant here. In some cases, the client order may also come with specific instructions from the client.
- **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 order being contemplated, and whether there is significant volatility in the market.
- **The characteristics of the trading venues** – Relevant considerations here might be the reputation and reliability of the venue, whether the order will be subject to pre and post-trade transparency, and the types of counterparty that the order is likely to be executed against.

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.

8. Relying on a single venue

The firm is permitted to rely on a single venue or counterparty to execute client orders. However, in order to demonstrate that best execution is being provided in this situation, a firm must be able to show that its reliance on this single venue or counterparty provides the best possible result for its clients on a consistent basis, and that the results are at least as good as could be obtained from relying on other entities.

9. The execution process: Prioritisation of the execution factors

The table below details the order execution strategy, venue types and execution factors considered for each asset class.

Financial Instruments	Market Facing?	Execution strategy	Venues Type	Execution factors (ranked by importance)
Sovereign Bonds	No	Orders are sent to selected authorised intermediaries	Authorised counterparty	Likelihood of execution and settlement Costs, which are a product of: - Liquidity and size - Price - Speed of execution
Currency Derivatives	No	Orders sent to pre-determined counterparty under ISDA	MTF Authorised counterparty	Likelihood of execution and settlement Creditworthiness Costs, which are a product of: - Liquidity and size - Price - Speed of execution
ETF	No	Orders are sent to authorised selected intermediaries	Authorised counterparty	Likelihood of execution and settlement Costs, which are a product of: - Liquidity and size - Price - Speed of execution
Collective Investment Schemes	Yes	Instruct CIS managers directly	N/A	Likelihood of execution and settlement
Equities / Investment Trusts	No	Orders are sent to authorised selected intermediaries	Authorised counterparty	Likelihood of execution and settlement Costs, which are a product of: - Liquidity and size - Price - Speed of execution

10. Transmission of orders to brokers

A key aspect of delivering the best possible result to the firm's clients, is how the decision is taken as to which counterparty (execution broker) to use.

A list of approved execution brokers (per instrument class) is maintained by PCP. In selecting brokers for its approved list, PCP will ensure these counterparties are either authorised and regulated by the FCA or by their home state regulators under MiFID. Any approved counterparty is subjected to a due diligence process, focusing in particular on quality of execution and credit risk. The firm will ensure that all approved brokers owe PCP a duty of best execution and have in place execution arrangements to obtain, on a consistent basis, the best possible result when executing clients' orders. The results execution brokers achieve will be monitored on an ongoing basis. The firm will regularly review the list and assess the brokers available in respect of any instruments that it trades.

In selecting a particular execution broker from the approved list, the firm will assess the execution criteria in relation to that particular trade order, and in accordance with its prioritisation of the execution factors. This will typically lead to the counterparty being selected that is expected to provide the most favourable outcome for the client in terms of the price/cost of the trade, although other factors could also be taken into consideration, including:

- Accurate and timely execution, settlement, clearance and error / dispute resolution processes
- Reputation, financial strength and stability
- Block trading and block positioning capabilities
- Willingness to execute difficult transactions
- Willingness and ability to locate and/or commit capital to complete trades
- Execution of an ISDA Master Agreement with the firm's clients
- Access to liquidity
- Execution algorithm functionality
- Ongoing reliability
- Overall costs of a trade including commissions, mark-ups, markdowns or spreads
- Nature of the security and the available market makers
- Execution at a desired time for the transaction
- Size of the trade and ability to fill trades in staged orders
- Anonymity of trading activity
- Market intelligence regarding trading activity
- Licensed, as required, to execute the type of transaction

The firm's approved counterparty/trading venue list is available in Appendix 2.

11. OTC trades

The firm typically executes OTC trades in relation to currency derivatives, subject to an ISDA agreement. Additionally, the firm also acts in a discretionary capacity for clients when executing orders in OTC markets.

When trading currency derivatives, the firm may conduct a trade cost analysis as well as obtain indicative prices from multiple counterparties, which the firm will take into consideration - along with other execution factors - when selecting a counterparty that will produce the best possible result for the client.

Transactions in ETFs are sometimes traded directly with a counterparty. The firm will use its experience and professional judgment to determine which counterparties to approach to quote a price. 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. An audit trail of all quotes received prior to execution will be kept on record.

12. Fair allocation, aggregation of orders

The firm is not authorised to deal on its own account and for this reason, the firm may choose to aggregate trades but will never allocate.

The firm will generally execute trades on an aggregated basis when the firm believes that to do so will allow it to obtain best execution and to negotiate more favourable transaction costs than might have otherwise been incurred had such orders been placed independently.

The firm will usually calculate the trade sizes per client and aggregate these into a single market trade. Where the available trade size is smaller than our desired aggregated order, each client's trade is scaled back on either a pro-rata basis or based on each individual client's holdings relative to their target allocation. These processes will take place before the trade is executed in the market.

13. Switching transactions between portfolios

The firm may seek to execute all or part of an order by transferring securities between clients' portfolios (switch trade). However, the firm will only cross transactions where there is a clear operational, cost or liquidity benefit and the trade is demonstrably fair to both parties given those factors.

14. Other investments outside the scope of MiFID II

The firm actively transacts in spot FX on behalf of its clients for the purpose of enabling the settlement of securities trades priced in a currency other than GBP. The first execution factor that the firm will consider is the likelihood of settlement, and as such, the firm has elected to use its custodian's FX desk as its sole counterparty for execution.

However, the firm will always consider the importance of price in relation to these trades and monitors all quotes given by the custodian's FX desks against Bloomberg market rates to ensure that the firm always obtains a fair market price on behalf of its clients. In the event that the quote provided by the Custodian is not within the firm's acceptable tolerance, an acceptable price is negotiated.

15. Monitoring of policy and arrangements, and review process

The effectiveness of this policy in delivering the best possible result for clients will be regularly monitored by the firm to enable identification, and rectification, of any deficiencies. Ongoing monitoring of execution quality and 'first line' controls is undertaken by the firm's portfolio management team via the daily monitoring of the Transaction Cost Analysis (TCA) reports received from brokers. Any exceptions are investigated by the operations team by recreating the trade conditions using Bloomberg tick data. Any unresolved issues are escalated to the COO during the weekly operations meetings.

A more formal, and independent, review will be undertaken by the compliance function on a monthly basis in which a random selection of trades will be identified and reviewed for best execution. The compliance function will liaise with the relevant portfolio managers as necessary as part of this review. Apart from the compliance function's normal reporting lines, any inconsistencies identified from the review of sample trades will be reported to the COO for review and consideration of any necessary escalation.

16. Review and oversight of the Order Execution Policy

The COO is responsible for ensuring that the firm's internal policies and procedures deliver best execution, monitoring the effectiveness of counterparties and trading 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. Compliance will carry out a periodic review of the policy (not less than annually) and prepare any necessary changes for presentation to the COO. The results of the periodic monitoring of execution quality described above, as well as the periodic counterparty assessments will feed in to this review. This will allow the COO to assess whether the policy is being adhered to and whether the policy itself is sufficient to deliver the best outcome for clients on a consistent basis.

The COO will also consider as part of this review whether any changes made represent a 'material change' that needs to be notified to clients.

17. Notification of material changes

Any material changes that are made to the policy will be notified to clients. Where changes are made, in the ordinary course compliance will consider, as part of their review, whether the changes are material enough to require notification to clients. As a general rule, the addition or removal of a broker from the list of approved brokers is not considered a material change and will not require specific notification to clients.

Examples of material changes are likely to be the firm starting to trade a new type of instrument that requires new and different execution arrangements to be put in place, or substantial changes to the firm's existing execution arrangements.

18. Publication of top 5 brokers and execution venues

On an annual basis, the firm will publish for each class of financial instrument the top five execution brokers (and trading venues) in terms of trading volumes where the firm placed orders for execution in the preceding year and also publish information on the quality of execution obtained.

The information will be disclosed on the firm's website (www.pacificam.co.uk) and the first annual report will be published by April 2018.

The information used to prepare the top five lists will exclude transactions carried out for the AIFs for which PCP acts as the AIFM.

19. Specific client instructions

If the firm receives an order from a client that includes specific instructions in relation to the handling and execution of the order (such as requesting a particular trading venue, specifying a particular price or time or requesting the use of a particular strategy) then, subject to the firm's legal and regulatory obligations, the firm will execute the client's order in accordance with these specific instructions. This means that to the extent of the specific instructions, the firm's obligation of best execution will be satisfied by executing the order in accordance with the specific instructions.

Where a specific instruction covers only a portion of an order (for example, as to the choice of venue), and the firm have discretion over the other elements of the order, then the firm will continue to owe an obligation of best execution in respect of the remaining elements of the order that are not covered by the specific instruction.

20. Disclosure of inducements, conflicts and fees

The firm is required to maintain a Conflicts of Interest Policy identifying the circumstances that constitute or may cause a conflict of interest with potential material risk or damage to the interests of one or more of its clients. The Conflicts of Interest Policy in place outlines the procedure that the firm will follow to manage such conflicts. This requirement applies to potential conflicts of interest that may arise between the firm and its clients as a result of its execution arrangements which could prevent it from satisfying its best execution obligations. A copy of the Conflicts of Interest Policy is available on request.

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

Appendix 1 – Execution venues used by PCP

Class of financial instrument	INDIRECT	DIRECT	NOT APPLICABLE
Equities – Shares & Depositary Receipts (including Investment Trusts)	X		
Debt instruments			
(i) Bonds	X		
(ii) Money market instruments			X
Interest rates derivative			
(i) Futures and options admitted to trading on a trading venue			X
(ii) Swaps, forwards and other interest rate derivatives	X		
Credit derivatives			
(i) Futures and options admitted to trading on a trading venue			X
(ii) Other credit derivatives			X
Currency derivatives			
(i) Futures and options admitted to trading on a trading venue			X
(ii) Swaps, forwards and other currency derivatives		X	
Structured finance instruments			X
Equity derivatives			
(i) Options and Futures admitted to trading on a trading venue			X
(ii) Swaps and other equity derivatives			X
Securitised derivatives			
(i) Warrants and Certificate Derivatives			X
(ii) Other securitised derivatives			X
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
Contracts for difference			X
Exchange traded products (exchange traded funds, exchange traded notes and exchange traded commodities)	X		
Emission allowances			X
Other MiFID II instruments			
(i) Units in Collective Investment Schemes		X	
Other instruments outside scope of MiFID II			
(i) FX Spot		X	

Appendix 2 – Schedule of entities used by PCP to pass orders to for execution

Class of financial instrument	TRADUNG VENUE	BROKER
Equities – Shares & Depositary Receipts (including Investment Trusts)		Canaccord Genuity Morgan Stanley
Debt instruments		
(i) Bonds		Canaccord Genuity Morgan Stanley
(ii) Money market instruments		
Interest rates derivative		
(i) Futures and options admitted to trading on a trading venue		
(ii) Swaps, forwards and other interest rate derivatives		
Credit derivatives		
(i) Futures and options admitted to trading on a trading venue		
(ii) Other credit derivatives		
Currency derivatives		
(i) Futures and options admitted to trading on a trading venue		
(ii) Swaps, forwards and other currency derivatives	FX Connect MTF	State Street
Structured finance instruments		
Equity derivatives		
(i) Options and Futures admitted to trading on a trading venue		
(ii) Swaps and other equity derivatives		
Securitised derivatives		
(i) Warrants and Certificate Derivatives		
(ii) Other securitised derivatives		
Commodities derivatives and emission allowances derivatives		
(i) Options and futures admitted to trading on a trading venue		
(ii) Other commodities derivatives and emission allowances derivatives		
Contracts for difference		
Exchange traded products (exchange traded funds, exchange traded notes and exchange traded commodities)		Canaccord Genuity Morgan Stanley
Emission allowances		
Other MiFID II instruments		
(ii) Units in Collective Investment Schemes		
Other instruments outside scope of MiFID II		
(ii) FX Spot	FX Connect MTF	State Street