

Execution Policy and Procedures

2009

The intention of this document is to set out Edinburgh Partners Ltd (“EP”) policies and procedures in relation to the management of trading and its associated costs on behalf of clients. This document is the method by which EP demonstrates its compliance with its obligations with the following requirements:

- Disclosure of dealing commission to purchase execution or research services as required by The Financial Services Authority;
- The Code of Practice as drawn up by a joint working party of members of the Investment Management Association and National Association of Pension Funds; and
- Section 28(e) of the US Securities and Exchange Act 1934 and any guidance issued by the Securities and Exchange Commission relating to the use of client commission to purchase brokerage and research services.

The provision of detailed client specific commission disclosure reports showing the split between execution and non-execution costs is provided separately on a semi-annual basis.

If you have any questions regarding this document then please do not hesitate to contact your client relationship contact.

Dealing Venues and Methods

EP’s investment philosophy is based on identifying absolute long-term undervaluation and buying and holding a stock until that undervaluation is reversed. The key issue therefore is ensuring that once a security has been identified as undervalued, it is purchased for the portfolio. The execution of the purchase has two principal elements. Firstly, ensuring that the security is actually purchased at a sufficient discount to our estimate of fair value. Secondly, within this constraint, ensuring that the execution itself is done on the best possible terms. There is often a trade off between what must be paid for a security relative to the amount of the security purchased. The cost of the security is important in so far as the price paid must at all times be below our valuation indicated target.

We place all our deals with brokers with whom we deal on an agency basis. We have relationships with a number of brokers who transact on our instructions on behalf of clients on the main global stock exchanges. However, in executing a transaction the choice of broker and method of trading is dictated by the portfolio manager’s view of which broker the portfolio manager considers will be able to fulfil the trade in the most timely and efficient manner within the price range which has been set.

Programme or block trades are used for investing money for new clients or if there is a material inflow of cash into a client's account. Our experience shows that when trading in more than 10 stocks at the same time, a programme trade is frequently a more efficient and cost effective way of transacting. Savings result primarily from lower commission rates, as brokers sometimes wish to buy market share and price trades accordingly. When executing a programme trade we will generally ask two brokers to quote for the business.

On any occasion where the portfolio manager feels that is the most efficient method of transacting and it is not prohibited by the client agreement, stock may be crossed between our clients but using a third party in the market. This eliminates the cost of the spread between bid and offer prices and reduces the market impact. Crossing stock can, however, give rise to a potential conflict of interest as the same agent will be acting for both buying and selling parties. EP will place the order with an approved broker and apply the principles of best execution to both sides of the transaction.

As noted earlier, the definition of best execution falls within constraints, primarily dictated by liquidity. There are two conflicting elements. A narrow definition of best execution concentrates on the price achieved on a particular day relative to all the trades that took place that day. Assuming no sharp share price movements during the period this gives an indication of the extent to which the broker was able to execute the trade without disturbing the market price. The reason this is a narrow definition is that the smaller the amount that is executed the lower the risk of disturbing prices. However, a trade could easily show up as well executed in terms of the daily volume weighted average price (VWAP) whilst actually disadvantaging the client. This would occur if the trade took an extended time to complete during which an adverse price movement affected the aggregate execution, or indeed the security moved out of the price range where we felt that the transaction should actually take place. Each individual trade is assessed within the narrower and broader contexts. Put another way, any trade is a balance between costs of execution and the potential opportunity cost of not executing.

EP reserves the right to execute trades or transmit orders both in and outside of regulated markets or within multilateral trading facilities.

Principally orders are currently sent to brokers electronically. Dealing details are input within our front office system which then generates an email to the selected counterparty when the trade has been authorised.

Post trade analysis of our executions is conducted by our portfolio managers and our regulatory and operational risk area.

Broker Selection and Review

EP maintains relationships with a number of broking firms. A central list of approved brokers is maintained within our front office system and is reviewed on a regular basis by our Broker Review Committee. In order for a broker to be put forward for the approved broker list we must be satisfied that the broker can provide a suitable level of service. The broker's ability to trade effectively for our clients, provide good quality research, offer access to company management, share local knowledge and generate good quality ideas are all areas which are considered when putting a broker on to the approved list. In addition, Compliance will check financial background and legal terms. The broker is then put before the Broker Review Committee for review of the factors listed above and approval.

Broker selection for trading is undertaken by the portfolio managers and is dependent firstly, on our view of who is capable of executing the trade in the most efficient manner and secondary to this within the framework set out above. Brokers are reviewed on a quarterly basis by our Broker Review Committee. These reviews will take into account the quality of service provided by each broker across the spectrum including execution capability, quality of research, settlement issues and errors.. On a six monthly basis the portfolio managers will vote on the brokers research capabilities. The results of this vote will be combined into factors reviewed by the Broker Review Committee. The Broker Review Committee comprises two portfolio managers and senior representatives from Operations, Compliance and Client Service.

Unbundled Commissions

As required by the FSA, we disclose the split of trading commissions paid on behalf of our clients, between the purchase of research and execution services. Brokers are included on our approved list of counterparties as explained above, principally on the basis of their ability to execute trades effectively and efficiently, and to provide research services where we find them a useful adjunct to our comprehensive in-house research.

Trading market access, best execution pricing, provision of liquidity, settlement efficiency and other operational services are all important factors in the assessment of the quality of broker execution services. Elements of the research service which we consider important include, access to company management, published research papers and the provision of market information. Both the execution and research elements of a broker's service are monitored and reviewed on a quarterly basis by our Broker Review Committee.

In the first quarter of 2006 we commenced the disclosure to clients of the split of trading commissions paid, into the purchase of execution and research services from brokers, in accordance with FSA recommendations. This information is made available to clients on a six monthly basis in the form of a separate report.

Commission

EP always deals on an agency basis on behalf of clients and as a result these trades bear commission costs. Commission rates vary from country to country and also between share classes. Brokers who execute trades in less developed markets will generally charge higher commission rates than those in developed markets. Rates will also be higher for smaller companies where liquidity in shares can be limited and only a handful of brokers may research the stocks. At the firm level commission rates vary from the standard 15-20 basis points to up to 50 basis points in some emerging markets. Program trade costs tend to be slightly lower.

Commission Recapture

When instructed to do so, EP will participate in commission recapture programs operated by clients but only in the event that the brokers which the client wishes to use overlap with those on its current approved broker list. The principles of best execution would not be comprised in favour of attaining commission recapture targets for clients.

Dealing Efficiency

The operations department within EP maintains post trade information on all the deals placed by our portfolio managers e.g. VWAP. On a daily basis the portfolio managers are given a list of trades outstanding for review and comment. In addition, the regulatory and operational risk area reviews an exception report of all trades which fall outwith set tolerance levels or the price versus VWAP and request explanations from the relevant portfolio manager. This enables a close watch to be kept on the trading efficiency in practical terms. However, EP's approach to investing may also have a negative impact on this narrow definition of transaction costs given the trade off between achieving a low variance against VWAP on a daily basis and actually obtaining the full position in the desired security. The opportunity cost of not completing a purchase is frequently substantially higher than that associated with reducing daily variance against VWAP.

Conflicts of Interest

EP maintains a conflicts of interest policy document which documents the conflicts of interest whether real or potential which may affect the company. The conflicts of interest policy is reviewed by the Operations Management Committee. However, as an independent investment management house, EP has no associations or affiliations to counterparties with whom it transacts when dealing for its clients. As a result, the scope for conflicts of interest is limited and portfolio managers are able to deal with whichever counterparty will provide the best execution for their clients.

When dealing on behalf of clients, portfolio managers may be purchasing two sets of services, firstly those directly relating to the execution of the deal and the second, which may consist of

research. Thus a conflict of interest may be apparent from the choice of broker or volume of business placed with a particular broker. However, when selecting a broker for client deals, best execution is the primary determinant and not any other services.

A further area where there may be a conflict of interest arises in the undertaking of orders for multiple clients and the subsequent allocation which takes place. When placing orders a strict order priority system is utilised. No portfolio manager may place an order for a stock which is already being worked until the first order is completed unless there are exceptional circumstances which are closely defined e.g. unexpected cash inflows or outflows from a client. The allocation of a deal is undertaken on a pro rata basis with the only exceptions being for de minimis orders for clients. In these circumstances the random allocation facility within the front office system is utilised. Any order must be entered into the front office system which also has the clients restrictions programmed into it. The system automatically checks the order against the restrictions for the clients and will highlight any areas where such restrictions may be breached. These have either to be cleared or a reason placed against them prior to a trade being placed by the portfolio manager. Non pro-rata allocations or any overrides of restrictions are reviewed by EP's compliance department on a regular basis. Finally, the crossing of a trade may provide a conflict of interest as noted earlier above.

Purchase of Research

Whilst EP's investment process places primary emphasis on its own in-house research, the portfolio managers do make use of external research from a number of broking firms or other small independent providers. This research would include access to written material, meetings with companies, or conversations with analysts who specialise in particular companies or sectors around the world. Any information obtained from these methods would be used to complement EP's in-house research, to broaden and deepen knowledge of particular areas, or for testing own forecasts, assumptions or conclusions.

The quality of research obtained externally is monitored and assessed by EP's portfolio managers as has been set out in the section on Broker Selection and Review above.

Derivatives

EP has not used any type of derivative instrument. However, it would be prepared to use derivatives, subject to regulatory and client constraints, where it is felt that they would contribute to the efficient management of a portfolio. They would not be used for the purpose of obtaining leverage/gearing.

IPOs and Underwritings

IPOs and underwritings may only be undertaken for those clients who have given EP permission to do so within their client agreements. In all other respects procedures for participation in

either an IPO or an underwriting would be exactly the same as for a normal deal and subject to the same procedures for ensuring the fair treatment of clients.

Custody Services

EP does not provide or arrange custody services and clients of EP directly appoint their own custodians. However, EP may provide guidance to clients who request advice on its experiences with different custodians which the firm has dealings with.

Placing of Deposits

EP's current policy is to use deposit facilities with a client's custodian where possible, but to use deposits with a third party bank if this is necessary to achieve acceptable rates. Time deposits are used to access enhanced rates where appropriate. Cash levels are monitored daily.

Foreign Exchange

Foreign exchange transactions are only undertaken as required by specific deals. Generally these are transacted with clients' custodian banks but may be transacted with a third party. EP's operations department undertakes periodic checks on the rates obtained to ensure that the rates obtained are competitive.