Execution Policy

The intention of this document is to set out Edinburgh Partners (EP) policies and procedures in relation to the management of trading and its associated costs on behalf of clients.

Dealing Venues and Methods

Our investment approach is long-term and focused on absolute valuation. We believe that adequately diversified, concentrated equity portfolios have the highest probability of generating good absolute returns. The execution of any transaction has two principal elements. Firstly, the security has to be priced at a sufficient discount to EP's estimate of fair value. Secondly, EP aims to ensure that the execution itself is done on the best possible terms. There is often a trade-off between the price of a security relative to the volume of the security traded.

EP places deals with approved brokers, on an agency basis. EP maintains broking relationships with a number of global brokers who it believes are capable of accessing sufficient levels of liquidity. These brokers are generally multi-national entities with the ability to trade in most global markets and access multiple sources of liquidity. EP believes that each broker on its approved list is capable of providing the best possible result for the order placed with it. In some instances the choice of broker may be more relevant than others, for example when placing orders in less liquid or emerging market stocks. In these cases the choice of broker and method of trading is dictated by the portfolio manager's view of who will be able to fulfil the trade in the most timely and efficient manner taking into account price, cost and likelihood of completion and settlement.

EP may also place orders through a buy-side trading venue. This system allows us to trade blocks with other buy-side institutions. This is used to supplement our broker venues. Orders can be placed on a buy-side venue at the same time as being placed with brokers.

Once an order has been passed for execution EP regularly reviews that order's progress. If the order is taking longer to execute than expected or is being traded at prices which appear to be high we will seek to understand why that may be the case and if necessary look for an alternative execution venue.

Programme or block trades are used for investing money for new clients or if there is a material inflow to, or outflow from, a client's account. A programme trade is frequently a more efficient and cost effective way of transacting. Savings can result primarily from lower execution rates, as brokers sometimes wish to buy market share and price trades accordingly.

On any occasion where the portfolio manager feels that it is the most efficient method of transacting and it is not prohibited by the client agreement, stock may be crossed between clients by 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 the Portfolio Manager 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 places orders with brokers or buy-side trading venues who may execute those orders on one or more trading venues. These venues include Regulated markets, Multilateral trading facilities (MTF) or Organised trading facilities (OTF), Systematic internalisers and Investment Firms acting as market makers or other liquidity providers. Where orders are executed outwith a Regulated market, MTF or OTF clients should be aware that those transactions will not have the benefits of the rules of those venues or the protections provided by them such as a central counterparty and buy-in rights.

Orders are currently sent to brokers electronically. Dealing details are input within the front office system which then generates a FIX message or email to the selected counterparty when the trade has been authorised.

Broker Selection and Review

A central list of approved brokers is maintained within the front office system and is reviewed on a regular basis by the Broker Review Committee (BRC). The BRC consists of a portfolio manager and senior representatives from Operations and Regulatory and Operational Risk. In order for a broker to be put forward for the approved broker list the BRC must be satisfied that the broker can provide the best possible result on a consistent basis. The principal criteria to be eligible for inclusion on the execution broker list are:

- Proven execution capability – we will select brokers we have traded with previously and who have had no 'red flags' resulting from our previous best execution / TCA monitoring or operational issues.
- Wide coverage – brokers must have access to substantially all the execution venues within each market where we intend to use them.
- Cost – there will be a maximum acceptable execution per market.
- PT desk – the ability to offer a programme trading desk is an advantage.
- Assisted trade reporting – we require brokers to support assisted trade reporting. This requires brokers to use an APA with interconnectivity with BATS or to execute our trades as a Systematic Internaliser.

The Regulatory and Operational Risk and Legal teams check financial background and legal terms. The broker is then put before the BRC for review of the factors listed above and approval.

In addition to brokers we use a buy-side trading venue as it allows us to trade blocks with other buy-side firms at 'mid' price with no information leakage.

EP will review reports produced by its approved brokers. These reports are used on an on-going basis to review our assessment of our broker's ability to be able to provide the best results for any order we chose to place with that broker.

Trading market access, best execution, provision of liquidity, settlement efficiency and other operational services are all important factors in the assessment of the quality of broker execution services. The execution elements of a broker's service are monitored and reviewed on a quarterly basis by the Broker Review Committee.

Dealing Efficiency

Each trade is unique with the main areas of focus being recent price movement and daily trading volumes in the stock. The choice of which broker to place the order with is to an extent of secondary importance especially among our larger and non-specialised brokers where liquidity may be more broadly consistent. Typically, our trades are placed with a volume limit with the express objective of avoiding moving the price through our own actions. However, where a broker can cross a stock (where they have a natural buyer or seller on the other side of the transaction) we will be happy to do so at the prevailing market price or even at the daily volume weighted average price as this should not impact the price. Price limits may be placed if the price reflects a level where it is not at sufficient discount to our fair value assessment.

We recognise there is often a trade-off between the price of a security relative to the volume of the security traded. For purchases, the price of the security is important in so far as the price paid must at all times be below EP valuation indicated target.

In addition, EP utilises the services of an external provider of Transaction Cost Analysis (TCA). TCA reports provide analysis of the interval VWAP i.e the price at which EP deals in comparison to the VWAP for the duration of a trade; and implementation shortfall i.e the price at which EP deals compared to the price at the time the original order was placed. This data is then compared by the TCA provider against data which it holds relating to trades within the market thus providing a benchmark for EP deals. The TCA reports are reviewed by the Broker Review Committee at its meetings.

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 our clients.

A further area where there may be a conflict of interest is 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. Non-pro-rata allocations and any overrides of restrictions are reviewed by EP's Regulatory and Operational Risk team on a regular basis. Finally, the crossing of a trade may provide a conflict of interest as noted earlier above.

EP has execution arrangements with a number of brokers who also provide us with research. In addition, we also have execution arrangements with brokers who do not provide research. These are referred to as 'Execution Only Brokers'. To check that the execution costs paid to brokers are not subsidising research the execution costs are reviewed to ensure costs are comparable between both sets of brokers.

EP has in place policies and procedures to ensure only appropriate research materials are paid for by our clients. Some documents produced by brokers which do not classify as research can also assist our portfolio managers in making investment decisions. These items are either paid for directly by EP or may be classified as a minor non-monetary benefit and therefore able to be received for free. Other minor non-monetary benefits may be received by Edinburgh Partners providing they are capable of enhancing the quality of service to a client. These include: the participation in training events on the benefits and features of a specific financial instrument or service, hospitality of a reasonable de minimis value and third party research during a trial period.

IPOs and Underwritings

Initial Public Offerings ("IPOs") and underwritings will be undertaken unless clients advise EP otherwise. 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.

Placing of Deposits

EP's current policy is to use deposit facilities with a client's custodian where possible, but will 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. All deposits, whether at the Custodian or 3rd Party Bank are in the name of the client.

Foreign Exchange

Foreign exchange transactions are only undertaken as required by specific deals, corporate actions or to repatriate income. Generally these are transacted with clients' custodian banks but may be transacted with a third party. EP has a policy of asking custodians to put in place benchmarked pricing of FX deals, where the custodian prices FX deals at an agreed spread over a benchmark rate, thus providing transparency (This does not apply for accounts where the client has agreed FX pricing directly with the custodian).

Forward foreign exchange transactions (forwards) can be used to reduce or remove a portfolio's exposure to a particular currency. Forwards are generally transacted with the clients' custodian bank in order to reduce operational risk, although may be also be transacted with a third party. Regardless of the counterparty exchange rates quoted by the counterparty are checked to an independent source for reasonableness prior to effecting the transaction.

Instructions from Clients

Specific instructions from a client in relation to an order may prevent EP taking the steps it has designed in this policy and may result in EP not obtaining the best possible result for that order.