

Order Execution Policy for Transferable Securities – Professional Clients

Introduction

This document describes the order execution policy of JPMorgan Cazenove Limited (“Cazenove”).

Cazenove is committed to helping its clients make informed investment decisions. An understanding of how Cazenove seeks to obtain “best execution” when a client places an order to buy or sell securities is key to this commitment.

Cazenove’s policy, in providing a client with “best execution”, is, so far as possible and subject to the processes set out below, to exercise the same standards and operate the same processes across all the different markets on which it executes the client’s orders. However, the diversity in markets and the kind of orders that a client may place with Cazenove mean that different factors will have to be taken into account when Cazenove assesses the nature of its execution policy in the context of different instruments and markets. For example, there is no formalised market or settlement infrastructure for over-the-counter transactions. In some markets, price volatility may mean that the timeliness of execution is a priority, whereas, in other markets that have low liquidity, the fact of execution may itself constitute best execution. In other cases, Cazenove’s choice of venue may be limited (even to the fact that there may only be one platform/market upon which it can execute a client’s orders) because of the nature of the order or of the client’s requirements.

This policy also outlines the steps Cazenove as a firm takes to monitor its execution performance. This policy is applicable to Cazenove’s ‘professional’ clients as determined in accordance with the client classification rules of the Financial Services Authority. For clarity, nothing in this policy should imply that Cazenove will act as either a systematic internaliser (SI) or a multilateral trading facility, also when executing fixed income security business, Cazenove will normally operate on a request for quote basis, and hence will act in accordance with what we understand to be the client’s best interests, but does not owe them “best execution” responsibilities under these rules.

Cazenove will review this policy whenever a material event occurs that affects or contributes

to the “best execution” outcome (e.g. addition of a new trading venue). Should no such event occur, the review will take place at least on an annual basis.

Execution Quality

When executing orders on behalf of a client in relation to transferable securities, Cazenove will take all reasonable steps to achieve what is called “best execution” of the client’s orders as set out in the sections below. To achieve this Cazenove has in place a policy and procedures which are designed to obtain the best possible execution result, subject to and taking into account the nature of the client’s orders, the priorities the client places upon us in filling those orders and the market or execution venue in question. The policy provides, in Cazenove’s view, the best balance across a range of sometimes conflicting factors to achieve the most favourable terms reasonably available over a periodic basis.

Cazenove will take into consideration a range of different factors which include not just price, but which may also include such other factors as the cost of the transaction to the client, the need for timely execution, the liquidity of the market (which may make it difficult to actually execute an order), the size of the order and the nature of the financial transaction, including whether it is executed on a regulated market or over-the-counter.

Cazenove will also take into account clear specific and general instructions given to Cazenove by the client which may prioritise how it is to fill the client’s orders. In the absence of express instructions from the client, Cazenove will exercise its own discretion in determining the factors that it needs to take into account for the purpose of providing the client with “best execution”. Cazenove will also take into account its understanding and experience of the market in question, the client’s dealing profile and the nature of the dealing service the client requires of Cazenove.

For fixed income securities, where Cazenove agrees to search the market for a particular security on the client’s behalf, “best execution” will be determined using price as the dominant factor. Cazenove will determine this “best price” from a relevant group of our regular counterparties.

Cazenove’s commitment to provide clients with “best execution” does not mean that Cazenove owes clients any fiduciary responsibilities over and above the specific regulatory obligations placed upon Cazenove or as may be otherwise contracted between Cazenove and the relevant client.

Execution Processes

Cazenove seeks to obtain the most favourable terms reasonably available when executing a client’s orders. To do this Cazenove will:

- 1) Carefully consider the elements of order execution taking into account the client’s specific instructions and the sequence with which it receives orders;
- 2) Ensure its regulatory obligations are met with regard to client classification and that any information it provides prior to accepting an order adheres to those regulations;
- 3) Employ sophisticated technology for routing, monitoring and executing orders such that the execution outcome is competitive and in the best interests of the client; and
- 4) Regularly and rigorously examine overall execution quality.

Execution Processes - Roles and Responsibilities

While Cazenove will take all reasonable steps, based on those resources available to it, to satisfy itself that it has processes in place that can reasonably be expected to lead to the delivery of best execution of a client’s orders, Cazenove cannot guarantee that it will always be able to provide “best execution” for every order executed on a client’s behalf.

Where a client provides Cazenove with a specific and unambiguous instruction in relation to its entire order, or any particular aspect of its order, including selecting to execute on a particular venue, Cazenove will execute the order in accordance with the instructions (to the extent reasonably practicable and subject always to Cazenove’s discretion not to accept any order). However, in following a client’s instructions Cazenove will be deemed to have taken all reasonable steps to provide the best possible result in respect of the order or aspect of the order covered by the specific instructions.

On some occasions, either at its own instigation or upon the client’s instructions, Cazenove will

seek price discovery and/or execute an order by means of a bookbuilding exercise. The objectives of this policy will be deemed to have been met if a clearing price for a client’s order that has been determined by means of open price bookbuilding (with or without a marketing price range). An order executed by way of fixed price bookbuilding will be deemed to have been executed in response to a specific instruction as to price as well as meeting the other factors affecting execution quality.

Cazenove will also treat any order to trade via a particular trading algorithm offered by us to clients as a specific instruction as to all aspects of the order.

The particular execution roles and responsibilities for Cazenove and its client will depend on the type of execution instruction received. A summary for the key types is given below. At all times, the client passing the order to Cazenove retains responsibility for best execution to its end client.

Execution Type	Client role	Cazenove role
Specific instruction – no latitude	Responsible for “best execution”	Comply with client’s instructions as stated
Partly specific instruction – some latitude	Specific responsibility for “best execution” due to mandated factors, in addition to retaining the “best execution” responsibility to its client.	Specific responsibility for “best execution” to its client due to non-mandated factors
Minimal instruction – maximum latitude	Retain “best execution” responsibility to its client	Responsible for “best execution” to its client

Execution Processes - Venue Selection

Cazenove considers the combined effect of all execution elements when determining the best venue for execution. Where comparative factors differ across execution venues (e.g. cost of execution, cost of settlement), Cazenove applies the following priorities to determine the most appropriate venue unless instructed otherwise:

- 1) Price and size improvement. Dependent on the nature of the order, Cazenove may be able to obtain a more favourable outcome by accessing alternative pools of liquidity, or aggregating similar orders to realise benefits of scale. Cazenove will also seek opportunities for client orders to benefit from order-size guarantees offered by exchanges and other market participants;
- 2) Speed and certainty of execution. Especially during volatile market conditions Cazenove will focus on execution venues that have a proven track record for providing liquidity and competitive pricing. At all times Cazenove seeks to provide customer orders with the fastest execution reasonably possible; and
- 3) Overall execution quality and cost. When determining how and where to route or execute an order, Cazenove draws on extensive experience with various markets, market makers and electronic networks focusing on prompt, reliable and cost-effective execution

Cazenove uses automated systems to route and execute most customer orders. When a customer order is received it is routed to the “best execution” venue as determined by the criteria above. Certain larger orders that may require special handling (for example to minimise market impact) will initially be managed by Cazenove’s Trading Desk in a manner consistent with Cazenove’s “best execution” principles. This may include the use of algorithmic trading tools where Cazenove considers these to be appropriate.

Cazenove will select a venue from a range of the major European markets offering significant liquidity. In a few markets, Cazenove may execute using a Direct Market Access (DMA) mechanism via a local broker. In these cases, it retains execution control. Cazenove regularly monitors other potential execution venues and may route orders to such venues if it believes they offer a reasonable “best execution” outcome for certain securities. As well as regulated markets, such venues could include multilateral trading facilities or alternative venues outside a regulated market as defined in the rules of the Financial Services Authority (including, for instance, where the securities are admitted to trading on a market which is not a regulated market or traded solely over-the-counter).

Furthermore, Cazenove may not execute a client’s order directly on a trading venue but

instead route the order through another broker. In some markets, especially in Asia and the Americas, this will often be the case since Cazenove does not have its own exchange membership in every location. Cazenove takes care to select brokers with a view to maximising access to liquidity in the relevant market. Orders may be passed to an associated company of Cazenove, such as Cazenove Asia Limited or Cazenove Incorporated. Brokers located outside the European Economic Area (or in EEA member states which have not yet implemented the best execution rules of MiFID¹) are typically not subject to the same requirements as Cazenove to provide best execution to their clients or to other brokers. For example, US brokers are subject to the best execution rules of the Securities and Exchange Commission, rather than those of the Financial Services Authority or other European regulators. These requirements may be less stringent or may require the broker to apply different criteria to the judgment of execution quality to those set out in this policy, but in any event Cazenove will seek to oblige its executing brokers to provide consistently high execution quality.

Where Cazenove is, in effect, itself the execution venue i.e. where it deals directly with a client on a principal-to-principal basis, Cazenove will review the quality of its own execution as if it was an execution venue, and disclose the criteria used by it to make this judgement.

Factors Affecting Execution Performance

Cazenove’s clients should also be aware of the factors affecting the “best execution” outcome when making investment decisions.

When investors place a high volume of orders with brokers, backlogs can occur requiring more time to execute orders. This is largely due to delays caused by the number and size of orders processed, the speed at which quotations are made, the volume of market data transmitted and trading system capacity constraints. Electronic orders may not be executed simultaneously with receipt and therefore can also be affected by market conditions.

To reduce the impact of market volatility, Cazenove connects to most European exchanges directly and regularly monitors the emergence of

¹ The Markets in Financial Instruments Directive and its ancillary directives and regulations.

alternative trading venues for sufficient liquidity. Cazenove remains committed to direct connectivity for venues that consistently demonstrate viable liquidity and a “best execution” outcome.

In extreme volume and volatility situations, exchange system constraints require automated trading solutions to be switched off and/or electronic routing to be suspended in favour of manual execution. Such events lead to further execution delay and increased market volatility. Clients should be aware of the following risks associated with volatile markets, especially at or near or close of the standard trading session:

- An order may be executed at a substantially different price from the quoted bid or offer, or the last reported sale price at the time of order entry, or an order may be only partially executed or may be executed in several transactions at different prices; and
- Opening prices may differ substantially from the previous day’s close.

Execution Monitoring

Cazenove will monitor the effectiveness of its order execution arrangements and order execution policy to identify and, where appropriate, correct any deficiencies. Cazenove will assess, on a regular basis, whether the execution venues included in the order execution policy provide for the best possible result for its clients or whether Cazenove needs to make changes to its execution arrangements.

As part of this monitoring process, Cazenove will use sophisticated analytics commonly known as Transaction Cost Analytics (TCA) to periodically measure its execution performance and to determine if this performance in relation to securities traded on a regulated market complies with the criteria described in this document. Cazenove will compare the aggregated and averaged performance outcome with standard market benchmarks and will also make comparisons against alternative venues (where applicable) to ensure its performance remains consistent with this policy. The analysis will also form part of Cazenove’s decision making process when reviewing its choice of execution venues. For example, Cazenove will assess, on a regular basis, the quality of execution afforded by those venues on which Cazenove executes a client’s orders (and that includes the quality of execution offered by it when the client is dealing directly with Cazenove on a principal-to-principal basis) and whether

Cazenove needs to change its execution arrangements.

Executing brokers used by Cazenove within the European Economic Area (other than EEA member states who have not yet implemented the best execution rules of MiFID) are required to have their own execution arrangements that enable Cazenove to comply with this policy. Cazenove will assess and where necessary seek the appropriate assurance as to whether those brokers are meeting their obligations regarding execution quality. Cazenove will also assess and seek assurance that brokers in other jurisdictions are consistently providing high execution quality.