

# Policy Name: Order Execution Policy

## 1. Introduction

This document outlines the Order Execution Policy (“the Policy”) for executing a client order as required by the Financial Conduct Authority (FCA) Conduct of Business Sourcebook (COBS 11.2A) and as stipulated by the EU Markets in Financial Instruments Directive typically referred as ‘MiFID II’ and EU Markets in Financial Instruments Regulation (“MiFIR”).

We will take all sufficient steps to obtain the best possible result for our clients by abiding by this policy when executing orders, or receiving and transmitting orders to other entities for execution. An order is a an instruction to buy or sell a financial instrument (as defined in Annex 1, Section C of MiFID) which is accepted by Sanlam Securities UK Limited for execution or onward transmission to a third party.

Aside from the explicit best execution rules explained in this policy, we have an overriding duty to act honestly, fairly and professionally in accordance with the best interests of our clients at all times.

As detailed in the Sanlam’s Terms of Business, you are deemed to have consented to your transactions being handled in accordance with this Policy.

“Sanlam” for the purposes of the Policy means Sanlam Securities UK Limited (“SSUK”).

## 2. Scope

Our Order Execution Policy is applicable to Sanlam clients who have been classified as Professional clients and where we have received an order in the following classes of financial instruments: Equities, Fixed Income Instruments, Exchange-Traded Funds, as well as any other financial instruments in which we may execute orders from time to time. Eligible counterparties are not clients for the purposes of this policy; accordingly, this policy does not apply to the execution of orders on behalf of eligible counterparties as stipulated by Article 30 of MiFID.

Sanlam will take into consideration a range of different factors when determining how to obtain the best possible result for orders executed on your behalf, including price, costs; speed; likelihood of execution and settlement; availability of price improvement, potential price impact size; nature of the order; or any other considerations relevant to the execution of that order.

In determining the relative importance of these factors, we will use our commercial experience and judgement with consideration to the characteristics of the financial instruments to which the order relates, as well as the possible execution venues to which that order can be directed.

For detailed information on the execution factors prioritisation for each financial instrument as per the Policy, see Appendix 1

There are certain circumstances where best execution will have a limited scope.

Specifically:

a) **Specific instructions:** where you give us a specific instruction, such as specifying an execution venue, to the extent that we accept and follow your instructions we will have satisfied any best execution requirements with respect to that aspect of your order. The remaining elements of the order not covered by your specific instructions will remain subject to best execution requirements. An example could include where you send a volume weighted average price (VWAP) order specifying the London Stock Exchange as the venue but where the elements other than venue will remain subject to the best execution requirements.

b) **Limit Orders:** where you place an order with a “limit” on the price for execution, we may not be able to execute a limit order immediately. Consequently, in accordance with regulatory requirements and unless otherwise specifically instructed, we will publicly disclose details of any unexecuted part of such ‘limit’ order. However, with client consent, we can exercise discretion as to how and when unexecuted limit orders are shown to the market. We believe that this allows us to achieve the best possible result for our clients. We therefore seek your express consent on this matter – please see our ‘Terms of Business’. In the absence of an explicit response from you in relation to this information, if you place an order with us we will treat you as having provided us with consent not to publish any unexecuted limit orders, as we believe it is in your best interest for us to do so.

### **3. Execution Factors**

There are two methods that Sanlam use when executing trades on behalf of its clients

- **Transmission** - where Sanlam places an order with another entity for it to execute on behalf of the client (e.g. a broker or investment bank). In these instances, Article 24 of MiFID II and Article 65 of the Delegated Regulation will apply. In such scenarios, while we will owe our client a duty of Best Execution, we will also receive a duty of best execution from the third party. We select brokers that we are satisfied provide “Best Execution” in accordance with MiFID II and FCA regulations and we have established and implemented order execution arrangements that enable us to obtain on a consistent basis the best possible result for our own clients.
- **Execution** - where Sanlam executes an order directly against an execution venue (e.g. a regulated market, Multilateral Trading Facility (MTF), Organised Trading Facility (OTF) or Systematic Internaliser (SI), including Request For Quote (RFQ), use of MarketAxess etc.) or a market maker or other liquidity provider. In these instances Article 27 of MiFID II, Article 64 & 66 of the Delegated Regulation will apply. When Sanlam executes a transaction against an execution venue (or market maker or other liquidity provider) we will not receive a duty of best execution from the venue, but we will owe a duty of best execution to our client. As such, we will take ‘all sufficient steps’ to obtain the best possible result for our client.

Subject to any specific instructions received, Sanlam will take the following execution factors into consideration in determining how to obtain the best possible result for the order, namely:

- Price achieved for the investment
- Costs incurred as a result of the transaction being placed (including clearing and settlement costs)
- Speed of the execution and settlement
- Likelihood of the order being executed and settled
- Liquidity in the instrument being traded
- Size and nature of the transaction
- Nature of the financial instrument including whether it is executed on a regulated market, multilateral trading facility (MTF), Organised trading facility (OTF) , over-the-counter (OTC) or with a Systematic Internaliser (SI)
- Any other consideration relevant to the execution of the order

In determining the relevant importance of each of the above factors when executing an order, we will use our commercial judgement, experience in light of current market information as well as the following criteria (as defined in COBS 11.2A.8 (EU):

- 1) the characteristics of the client including the categorisation of the client as professional;
- 2) the characteristics of the client order;
- 3) the characteristics of financial instruments that are the subject of that order; and
- 4) the characteristics of the execution venues to which that order can be directed

The total consideration of the trade (i.e. the price of the financial instrument and the costs related to execution) will be our primary focus for the majority of transactions, although in some circumstances we may determine that other execution factors are more important in obtaining the best possible execution result for our clients.

#### **4. Execution Venues**

Execution venue is the term used to describe a place where a client order is executed and includes Regulated Markets, Multi-lateral Trading Facilities (MTF), Organised Trading Facilities (OTF), Systematic Internalisers (SI), and market makers or any other liquidity providers.

We will select the venue we consider the most appropriate for the order taking account of the execution factors we have described above and in more detail in Appendix 1. In relation to some financial instruments there may be only one possible execution venue. When we execute an order on a client's behalf in such circumstances it will be assumed that we have achieved best execution.

Sanlam may use other brokers to execute client orders to achieve best execution, for example, in those jurisdictions where we have no local presence. We may also transmit orders to exchanges via direct market access connectivity provided by other brokers. In choosing the other brokers, Sanlam will take into consideration the following factors relating to that venue:

- Access to alternative markets and trading venues;
- Adequate coverage to asset classes globally;
- Commission rates and prices/spreads provided;
- Execution speed/latency;
- Quality of execution and service, both historical and current;
- Clearing and settlement efficiency and capabilities; and
- Risk profile and creditworthiness; and
- Regulatory status and reputation.

We seek your express consent to execute your orders outside a Regulated Market, MTF or OTF when we believe this is the best method of obtaining best execution – please see our 'Terms of Business'.

#### **5. Broker Approval Process**

Sanlam has a process for the selection of counterparties with whom it transmits client orders to for execution.

In order to minimise the risk of potential conflicts of interests, Sanlam does not receive any form of remuneration, discount or non-monetary benefit for directing orders to a particular venue or broker for execution. The selection of a broker for an order is driven solely by the factors and inputs as described in Section 3 of this Policy.

#### **6. Monitoring of approved brokers**

All Brokers are reviewed / assessed on an on-going basis against mentioned above factors (see Section 4) in accordance with our obligation to provide the client with the best possible execution results on a consistent basis. Also, as part of this process brokers are regularly screened for negative media and potential sanctions, which may also include licence suspensions, disciplinary actions, and reputational issues. The screening is performed by the Compliance Financial Crime team and escalated to the Dealing Oversight Committee, which in conjunction with the Financial Crime team will determine the risk to Sanlam and its clients and the potential removal from the Approved List.

We also undertake an annual review of all brokers utilised by Sanlam. This includes assessments of execution quality, service delivery, regulatory status and the financial standing of the firm.

#### **7. Quality of Execution**

Sanlam's Dealing Oversight Committee (DOC), together with the Operations and Compliance teams monitor the execution quality provided by Sanlam and Sanlam's approved brokers. The DOC is comprised of senior

management members, i.e. Portfolio Management, Settlements, Trading, Risk and Compliance. The DOC oversees the brokerage allocation process using Transaction Cost Analysis tools.

Our methodology for achieving best execution for each financial instrument is outlined in Appendix 1.

## **8. Review of Sanlam's Execution Policy**

Sanlam reviews this execution policy annually, as well as whenever there is a material change that affects its ability to continue to obtain the best possible result for the execution of orders on a consistent basis.

## **Appendix 1- Execution Methodology for Financial Instruments**

### **A. Equities**

As mentioned in Section 3, there may be various execution factors taken into account when choosing a trading venue factors considered for Equities are as follow below.

#### **I. Execution Factors in order of importance**

- a) **Price and liquidity** – as a general rule, we will try to identify venues/brokers which are sources of natural liquidity before entering an order into the market; deep liquidity is likely to provide material opportunities which may take the form of a better price and the ability to trade significant additional size at a similar price.
- b) **Speed and likelihood of execution** – this is the rate at which we are able to progress your order; we will seek a balance between creating market and executing your order in a timely manner so as to reduce execution risk.
- c) **Size and nature of the order** – when we have large single stock orders to transact ,we might use MTFs to try to find a block-size match for our business that will prevent an adverse market impact for the traded stock.

We use the following methodology when defining the size of the order:

- Small <10% ADV (Average Daily Volume). Often traded via algorithmic trading
  - Medium 10-25% ADV. Depending on liquidity/ urgency we may consider using algorithmic trading
  - Large >25% ADV. Will usually require >1 day to trade. Algorithmic trading used less frequently. We may consider trying to source a block execution if trade is urgent. If algorithmic trading is used it make take several days to complete the order. We may choose to use an algorithm whilst a block execution is being sought
- d) **Costs** – we believe that one of the steps to achieve best execution is equity markets is to negotiate the lowest possible terms for the explicit cost of trading (such as commissions) and minimise the implicit costs (such as market impact and opportunity cost).
  - e) **Likelihood of settlement** – our approval broker selection process as described in Section 5 helps us mitigate the credit and settlement risk we may face. We will generally not use a trading venue/broker if we cannot either settle a transaction or resolve failed settlements.

#### **II. Algorithmic trading**

Sanlam uses algorithmic trading primarily for orders that do not require a manual execution service from our brokers. Such decisions are usually justified for trading in an instrument with a high volume and liquidity. Algorithmic trading can be more cost effective due to lower commission rates and in order to reduce the potential impact of an order on the market price of the instrument.

We utilise broker-supplied algorithms. The selection of brokers and their offered algorithms is based on previous execution performance and the transparency of their order handling process.

### **B. Fixed Income (FI)**

This policy covers fixed income instruments held on a regulated market or multi-lateral trading facility, organised trading facility, over-the-counter (OTC) fixed income securities, asset-backed credit products and any other credit products and money instruments. Due to the large variance in liquidity across fixed income a

lot of the FI trades are executed OTC, on a MTF or OTF (as of January 3<sup>rd</sup> 2018) or with a Systematic Internaliser (SI).

In order to meet the distinct needs of our, we will consider a number of execution strategies and trading venues in order to facilitate the most appropriate choice taking into consideration the specifics of the fixed income security. The execution venue factors considered for Fixed Income are as follow below.

## I. Execution Venues Factors in order of importance

- a) **Likelihood of execution and settlement** – unlike equity markets, there is seldom a continuous two-way market of buyers and sellers whereby a minor change in price by one or the other can result in a trade. There is also a risk that the counterparty with which Sanlam trades FI over-the-counter might default and fail to meet its transactional obligations to pay us. Sanlam will trade on a MTF and/or with a SI in order to mitigate this risk
- b) **Size and nature of order** - we will often trade incrementally or be conservative with the number of brokers we contact in order to reduce the likelihood of moving the price significantly
- c) **Price** - price achieved is always in our focus but the less liquid nature of trading fixed income, often off-exchange, means we will normally take a more strategic approach in order to achieve best execution
- d) **Costs** - within the FI space, execution costs are almost entirely standardised and is typically included in the price as a bid/offer spread so that is why the costs factor is considered to be a lower priority

Price discovery is one of the most challenging aspects of trading FI. Generally, it is preferable to use MTFs because these venues provide a better price discovery function. However, the use of MTFs might not be appropriate for transactions above a certain size because the exposure of the trade data may adversely affect the market price and prevent Sanlam from obtaining the best result available in the transaction. Sanlam will consider whether multiple quotes can or should be obtained depending on the security type, the security to be traded, the size of the transaction and the prevailing market conditions. However, the new transparency rules under MiFID II and MiFIR will contribute to the greater transparency of the FI markets, which will allow us to benchmark our brokers and monitor their quality of execution.

## C. Exchange-traded funds (ETFs)

In order to meet the distinct needs of our clients, we will consider a number of execution strategies and trading venues in order to facilitate the most appropriate choice. The execution venue factors considered for ETFs are as follow below.

### I. Execution Venues Factors in order of importance

- a) **Price** – the price achieved will be our primary focus for the majority of transactions given that the ETFs we typically deal with are highly liquid
- b) **Size** – depending on the size of the order, we might decide to execute at a venue where likelihood of moving the price significantly is minimised
- c) **Speed and likelihood of execution** – this is the rate at which we are able to progress your order; we will seek a balance between creating market and executing your order in a timely manner so as to reduce execution risk.
- d) **Cost** - Most of our ETF orders are executed On-Exchange due to the better liquidity, but when we do trade with a counterparty, we do not pay commissions to the counterparty as we trade on a broker-to-broker basis