

# NIKKO ASSET MANAGEMENT EUROPE LTD BEST EXECUTION POLICY

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**Nikko Asset Management Europe Ltd**

1 London Wall  
London  
EC2Y 5AD  
Phone: +44 (0)20 7796 9866  
Fax: +44 (0)20 7796 9816

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Number 122084

**For Professional Investors Only**

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## A. General Policy

This policy, which we refer to as the “general policy”, sets forth the general basis on which Nikko Asset Management Europe Ltd (we refer to ourselves in this policy as “NAME”, “we” or “us”) will provide “best execution” to its clients, as required by the European Union’s Markets in Financial Instruments Directive 2014/65/EU (known as “MiFID II”) and the Conduct of Business Rules (“COBS”) of the UK Financial Conduct Authority (the “FCA”).

This Best Execution Policy consists of the general policy, individual desk policies applicable to asset class specific provisions, a post-trade monitoring policy, the appendix 1 which lists NAME’s counterparties and the appendix 2 which outlines the reporting requirements under MiFID II for the RTS28 report.

The general policy is divided into four sections:

1. Purpose and Scope
2. Achieving Best Execution
3. Counterparty Selection
4. Payment for Research
5. Policy Review

The desk policies for Equities, Debt Instruments, Interest Rates Derivatives and Credit Derivatives businesses as well as the post-trade monitoring policy follow the sections of the general policy.

### 1. Purpose and Scope

#### Purpose

We value our relationship with all of our clients and we strive in all cases to act fairly, reasonably and sufficiently in carrying out investment transactions for and on behalf of our clients. Our clients are professional investors only and this policy therefore does not apply to retail business or non-professional clients.

The purpose of this policy is to outline clearly, in sufficient detail and in a way that can be easily understood by our clients, how orders are executed by NAME as required under MiFID II and COBS.

#### Scope

This policy applies when NAME transmits orders to its counterparties in respect of any financial instrument covered by MiFID II. Counterparties in this policy refer to brokers, systematic internalisers (SIs), regulated markets and multilateral as well as organised trading facilities (MTFs and OTFs).

If the portfolio management has been outsourced to a third party, we oblige such third party to select its counterparties with due care and to establish, on its own account, an appropriate execution policy.

### 2. Achieving Best Execution

The regulatory requirements governing dealing and managing state that a firm must take all sufficient steps to obtain, when executing orders, the best possible result for its clients taking into account the execution factors.

Demonstrating best execution does not mean that the Firm must obtain the best possible results for its clients on every single occasion. Rather, the Firm must verify on an on-going basis that its execution arrangements work well throughout the different stages of the order execution process. This includes taking all appropriate remedial actions if any deficiencies

are detected so that the Firm can properly demonstrate that it has taken “all sufficient steps” to achieve the best possible results for its clients.

We are committed to comply with this approach and policy and follow a range of execution factors to determine how client orders will be processed in order to achieve best execution (unless otherwise instructed by the client).

#### **Execution Factors**

- Price
- Size of the order
- Nature of the order
- Speed
- Likelihood of execution and settlement
- Costs

In the majority of cases, NAME will prioritise price as an execution factor. However, there will be occasions when other factors may be relevant and, as discretionary managers, NAME may use its judgement and experience to determine the importance of execution factors other than price, typically considered in order as listed above, based on the following criteria:

- The financial instruments to which the order relates;
- The applicable execution strategy and
- The characteristics of the counterparty (if there is more than one) where the relevant order is to be executed.

In principal, we pass an order to a counterparty to execute our dealing decision in relation to the client portfolio. We have processes to review periodically our choice of counterparties and the relative importance of execution factors to ensure that, taking into account all the relevant factors, the counterparty is providing best execution on a consistent basis. In some cases we may make this determination on the basis of a review of the best execution policy of the relevant counterparty as well as making use of the RTS 27 report which is published by counterparties under MiFID II.

In cases where the counterparty is outside of the EEA and we do not have a counterparty that can execute the order from within the EEA (such as where the counterparty in question is the only entity on our approved counterparty list which is a member of the relevant exchange), the non-EEA counterparty may not be subject to requirements similar to the best execution requirements under MiFID II but NAME makes reasonable endeavours to ensure sufficient standards are fulfilled as part of the counterparty on-boarding process by requesting documents of equivalent standards and due diligence in advance of any trades.

Trades between certain fixed income client accounts may be executed with the prior approval of the local CCO on a case by case basis, if the interests of beneficiaries of both client accounts coincide with each other and it is considered desirable to do so. In any such case, the security will be crossed formally in the market at a market mid-price.

NAME may aggregate orders with order of other clients if it appears advisable in the interest of the affected clients. The bundling of orders will only be done if a disadvantage to individual clients is ruled out.

Prices for OTC products are obtained fairly by gathering market data on comparable prices and products. NAME is aware and will manage appropriately any risks that may arise if such price transparency is not available.

If the client places a specific trade instruction, it may prevent NAME from transmitting this order following all sufficient steps to achieve best execution as set out in this policy.

### 3. Counterparty Selection

Unless agreed otherwise with client, NAME will use a selection of counterparties, as defined in section 1. In some cases, influenced by liquidity or above mentioned executions factors, there is only one appropriate counterparty available, in such case we will only use the single counterparty.

We will review periodically, as part of our quarterly Order Placement Committees, the counterparties that we use to execute dealing decisions taking into account the factors we describe below for determining counterparties to ensure that they provide sufficient effort for best execution on an on-going basis. However, we are not under any obligation to check a variety of counterparties with respect to each transaction unless we have otherwise undertaken an obligation to do so in a desk policy.

NAME operates a centralised dealing function in order to foster specialisation and expertise in execution services, to incorporate a natural check-and-balance and to avoid conflict of interest. Each available counterparty will have gone through a robust broker approval process which requires review and approval by all of NAME's relevant departments, with the review including any factors that could have an effect on achieving best execution.

#### Counterparty Selection Factors

Factors that we consider before forming a relationship with a counterparty for client orders as well as for ongoing review in respect of a particular financial instrument include:

- Availability of prices
- Depth of liquidity
- Relative volatility in the market
- Speed of execution
- Cost of execution
- Creditworthiness of the counterparties (including but not limited to review of financial statements and potential history of regulatory disciplinary)
- Quality and cost of clearing and settlement
- Ownership of at least equivalent best efforts to achieve best execution and
- Potential conflicts of interest.

A latest version of NAME's counterparty list is available in appendix 1 which is updated periodically alongside this policy. The above selection factors can vary depending on markets and financial instruments. In some markets price volatility may mean that timeliness of execution is a priority. In other markets that have low liquidity, the fact of execution may itself constitute best execution. In other cases, our choice of venue may be limited because of the nature of client requirements. For example, when investment products are more illiquid, there may be little (or no) choice of counterparty.

Counterparty fees do not vary depending on the client as they are settled to fixed fees prior to the trading relation, details of this, as well as NAME's robust Conflict of Interest Policy, which sets out NAME's prohibition on any inducements which might influence the selection of counterparties, are available to the client upon request.

Under MiFID II, to enhance the counterparty review additionally to the above factors, we are required to publish the RTS28 report on an annual basis. Appendix 2 to this policy sets out the information required on counterparty usage per each individual asset class traded by NAME as defined by the ESMA/2015/1464 Annex I.

#### **4. Payment for Research**

The Firm has elected to pay for all third party research using direct payments by the Firm out of its own resources.

#### **5. Policy Review**

This policy will be updated annually to take into account changes as and when appropriate. These changes can be of a regulatory nature or following the assessment of the effectiveness of this policy. As mentioned above, the assessment of the policy includes the periodic report of the top five counterparties (RTS28) and the relevant discursive text.

Any updates to this policy will be published on our website at <http://emea.nikkoam.com/>.

### **B. Equity Desk Policy**

#### **Relationship to NAME's General Policy**

This Equities Desk Policy is part of NAME's Best Execution Policy to which it is annexed, and you should read it together with the general policy. If there is any inconsistency between the general policy and this desk policy with respect to the equities business covered, the more specific policy set forth in this desk policy applies. We use the same defined terms in this desk policy as defined in the general policy.

This Desk Policy applies when NAME transmits its orders in relation to client portfolios to counterparties for the following groups of equities products and services: cash equities.

#### **Dealing Procedures**

NAME operates across global equity markets through the use of counterparties as set forth in the general policy and follows its internal Equity Procedure Manual.

The general policy sets forth the circumstances under which best execution applies. Where we are taking investment decisions for an equity client portfolio we will look at all counterparties to which we have access. The nature of the markets and the stocks in the funds mean we use a combination of low and high touch trading strategies to ensure best execution. We will consider all execution factors as set forth in the general policy when determining the counterparty with varying levels of importance as described in more detail below.

#### **Execution Factors**

Based on NAME's judgement and depending on the applicable exchange that the cash equity is being traded on, there is various strategies our execution approach for cash equities can follow. These strategies can include requesting a counterparty to execute our order over a period of time (of up to several days where permitted by local regulation) in order to achieve the best result as well as bulking client orders and therefore increasing the size of the order.

We will consider all execution factors as set forth in the general policy when determining the counterparty. However, as set out in the general policy, price remains the factor with the highest importance. For cash equities, the next most important factor is size and nature of the order as well as speed. All other contributing execution factors as listed in the general policy are of a low importance in comparison.

## Counterparty Selection

The order placement committee meet on a quarterly basis to assess counterparties available for cash equity trading, taking into account different aspects of the service such as research quality, analyst access, execution capabilities including access to various liquidity pools, the algo suite of products they make available, and the efficiency of their settlement operations. The order placement committee consists of members from trading, investment, compliance, risk and operations. Counterparties are evaluated by the relevant area, on the criteria listed above, so as to get an accurate assessment of all aspects of the level of service being delivered to our firm. This assessment is then used for the following quarter as a basis for selecting counterparties for the various types of deals that require execution.

## NAME's Japanese Equity Clients

NAME delegates investment management of its Japanese equity mandates to NAM Tokyo which is a 'third country firm' under MiFID II and is therefore subject to its own local regulations. Based on ongoing oversight, NAME is satisfied that NAM Tokyo's procedures ensure that the best possible execution result is achieved on an ongoing basis. In addition to this policy we will also make available NAM Tokyo's Best execution Policy to the relevant clients.

## C. Debt Instruments Desk Policy

### Relationship to NAME's General Policy

This Debt Instruments Desk Policy is part of NAME's Best Execution Policy to which it is annexed, and you should read it together with the general policy. If there is any inconsistency between the general policy and this desk policy with respect to the debt instruments business covered, the more specific policy set forth in this desk policy applies. We use the same defined terms in this desk policy as defined in the general policy.

This Desk Policy applies when NAME transmits its orders in relation to client portfolios to counterparties for the following groups of fixed income products and services: bonds and money market instruments.

### Dealing Procedures

When dealing in money market instruments or fixed income instruments NAME follows its internal Fixed Income Procedure Manual and will in principle compare quotes from more than one source. For highly liquid government and non-government issues we compare quotes from at least three sources. For less liquid issues there may be occasions where only one or two quotes are available for a given issue. On occasions where only one quote is available it will usually be possible to look at reference yield curves, swap rates and issuer spreads for a given bond or money market instrument.

On by far the majority of occasions, three or more sources will be showing prices on electronic trading platforms for a given instrument. All trading platforms that are used maintain an audit trail of both the execution level and the competitive quotes given for a particular deal.

### Execution Factors

We will consider all execution factors as set forth in the general policy when determining the counterparty. However, as set out in the general policy, price remains the factor with the highest importance. For debt instruments, the next most important factor is size and nature of the order as well as speed. All other contributing execution factors as listed in the general policy are of a low importance in comparison.

## Counterparty Selection

The order placement committee meet on a quarterly basis to assess counterparties available for debt instrument trading, taking into account different aspects of the service as listed in section 3 of the general policy. The order placement committee consists of members from trading, investment, compliance, risk and operations. Counterparties are evaluated by the relevant area, on the criteria listed above, so as to get an accurate assessment of all aspects of the level of service being delivered to our firm. This assessment is then used for the following quarter as a basis for selecting counterparties for the various types of deals that require execution.

## D. Interest Rates Derivatives Desk Policy

### Relationship to NAME's General Policy

This Interest Rates Derivatives Desk Policy is part of NAME's Best Execution Policy to which it is annexed, and you should read it together with the general policy. If there is any inconsistency between the general policy and this desk policy with respect to the debt instruments business covered, the more specific policy set forth in this desk policy applies. We use the same defined terms in this desk policy as defined in the general policy.

This Desk Policy applies when NAME transmits its orders in relation to client portfolios to counterparties for the following types of FX trading: forward foreign exchange trades as well as non-deliverable forwards.

### Dealing Procedures

When dealing in FX NAME follows its internal trading procedures manual and will in principle compare quotes from more than one source and typically 3 or more sources will be showing prices. The use of an electronic platform such as FXALL in this context helps us both in achieving and in evidencing best execution.

For the majority of accounts for which we execute FX the FX deals are dealt on almost every occasion through FXALL, a live streamed platform – which displays the prices provided by the counterparties that have been approved as counterparties for any given client. FXALL stores historic records of all deals dealt together with the comparative prices provided by all the counterparties asked at the point of dealing. For example with a certain deal you are able to see the rate that was dealt with Counterparty<sub>1</sub> and the comparative rates from Counterparty<sub>2</sub>, Counterparty<sub>3</sub> and Counterparty<sub>4</sub>. FXALL shows in USD the amount saved by dealing with, in this example Counterparty<sub>1</sub>, as compared with if we had dealt with any of the other counterparties asked including the custodian. On FXALL the best price is always selected.

The only occasions where we would deal off the FXALL platform are a) Where the deal size is too large to deal on platform – in this case the rate would be compared against market rates indicated from Bloomberg, b) on non-deliverable forwards as there are occasions where some banks will not price on FXALL (so less frequently traded currencies like UYU/NGN for example) – for this example we would go to two or three banks and ask them for their levels away from FXALL if they're not trading through that platform for comparative quotes and c) on restricted currencies where the dealing is done with the custodian via an overnight order in the majority of cases.

### Execution Factors

We will consider all execution factors as set forth in the general policy when determining the counterparty. However, as set out in the general policy, price remains the factor with the highest importance. For interest rates derivatives, the next most important factor is size and nature of the order as well as speed. All other contributing execution factors as listed in the general policy are of a low importance in comparison.

### **Counterparty Selection**

The order placement committee meet on a quarterly basis to assess counterparties available for interest rates derivatives trading, taking into account different aspects of the service as listed in section 3 of the general policy. The order placement committee consists of members from trading, investment, compliance, risk and operations. Counterparties are evaluated by the relevant area, on the criteria listed above, so as to get an accurate assessment of all aspects of the level of service being delivered to our firm. This assessment is then used for the following quarter as a basis for selecting counterparties for the various types of deals that require execution.

## **E. Credit Derivatives Desk Policy**

### **Relationship to NAME's General Policy**

This Credit Derivatives Desk Policy is part of NAME's Best Execution Policy to which it is annexed, and you should read it together with the general policy. If there is any inconsistency between the general policy and this desk policy with respect to the debt instruments business covered, the more specific policy set forth in this desk policy applies. We use the same defined terms in this desk policy as defined in the general policy.

This Desk Policy applies when NAME transmits its orders in relation to client portfolios to counterparties for Credit Default swaps.

### **Dealing Procedures**

When dealing in credit derivatives, we currently trade the most liquid series hence there is a high price transparency and competing prices are checked according to the market levels. If the price of our one available counterparty is an outlier in comparison, the derivative is not dealt.

### **Counterparty Selection**

As NAME currently trades credit derivatives at a very low volume we deem it sufficient to have one counterparty to process the trade. If the volume increases we will review and appoint additional counterparties if necessary.

## **F. Post-Trade Monitoring Desk Policy**

### **Relationship to NAME's General Policy**

The above mentioned desk policies focus on the achievement of best execution pre-trade and during execution whereas the Post-Trade Monitoring Desk Policy sets out the procedures in place to monitor post-trade whether and how best execution was achieved. This should be read together with the general policy and all other desk policies as it applies to all executions by NAME on behalf of its clients.

This policy applies when assessing the quality of execution obtained on each trade and on the venues used and when assessing the effectiveness of the monitoring carried out by Nikko AME in relation to those execution venues. It sets out the explanation of how Nikko AME uses data and tools to monitor and assess execution quality and adherence to this policy on an ongoing basis.

## **Monitoring Procedures**

NAME's compliance department uses Bloomberg BTCA ("BTCA") to monitor all trades on an exception basis according to the best execution factors listed in the general policy to ensure that the sufficient steps for best execution were followed. The principal indicator of all monitoring is price, matching the primary focus for all of NAME's executions. NAME has best executions monitoring policies in place which are being followed and reviewed by the monitoring team.

### **Price**

Reports are run on a trade by trade basis for Debt Instruments, Equities and Interest rates Derivatives considering the basis points between the arrival price and the execution price. In case of alerts a manual investigation is conducted including the evaluation of the daily price levels and the competing quotes. Any escalations where best execution is unable to be demonstrated from the BTCA investigations are escalated to the head of dealing for further information.

Credit Derivatives are manually checked each time the derivative is traded by gathering market data to establish that a fair price was achieved in comparison.

### **Size of Order**

If the size of an order cannot be realised with the one counterparty that offered the best price, it is checked that the next best offer in terms of price was executed for the remaining or cancelled. Alternatively, the remaining may be held until an appropriate price level is found.

### **Nature of Order**

When analysing any exceptions the nature of the order is considered according to the applicable, benchmark and strategy.

### **Likelihood of Execution and Settlement**

From a post-trade monitoring perspective, the impact of likelihood of execution and settlement is in any case considered in all inquiries and investigated via our order management system.

### **Costs**

Our dealing desk negotiates execution costs with each counterparty at the start of the business relationship to a reasonable and lowest possible level before any trade activity.

### **Periodic Reviews**

NAME has a quarterly Order Placement Committee in place to monitor on a larger scale the counterparty usage and additions as well as all trade inquiries within the quarter. Issues are discussed and escalated if needed. In this committee we furthermore discuss the choice of research providers for Equities and Debt Instruments.

As mentioned above, under MiFID II, we collect the counterparty usage data annually per asset class and publish the information of the top five venues on our website alongside the updated version of this order execution policy.

## Appendix 1 – List of NAME’s Counterparties

### Equity

- Bank of America Merrill Lynch
- Berenberg
- Citibank
- CLSA
- Deutsche Bank
- Goldman Sachs
- Instinet
- Liquidnet
- ITG Europe
- Macquarie Group Limited
- Morgan Stanley
- Redburn Partners
- RW Baird
- UBS
- William Blair
- ALLQ

### Debt Instruments

- ANZ
- BAML
- Barclays Capital
- Bank of New York Mellon
- BNP Paribas SA
- Bradesco Securities
- CBA
- CIBC
- Citigroup
- Commerzbank
- Credit Suisse
- Daiwa Capital Markets Europe
- Deutsche Bank
- Dragon Capital
- Goldman Sachs
- HSBC
- Imperial Capital International
- ING
- Jefferies
- JP Morgan
- MarketAxess Europe Ltd
- Millennium Europe Ltd
- Millennium Advisors
- Mitsubishi Trust
- Mizuho
- Morgan Stanley
- Nykredit Bank
- RBC Europe
- RBS
- Seaport Group
- Susquehanna International Group

- TD
- UBS
- Nordea
- NAB
- Danske
- Westpac
- Santander
- Societe Generale
- Stifel Nicolaus
- Standard Chartered
- SEB
- Sumitomo Mitsui Trust Bank Ltd
- Sydbank
- Suntrust
- US Bancorp
- Unicredit
- Wells Fargo
- ALLQ

#### **Interest Rates Derivatives**

- BBH
- Deutsche Bank
- JP Morgan
- Barclays Capital
- HSBC
- RBC Europe
- BNYM
- State Street
- UBS
- Standard Chartered
- Northern Trust
- TD
- Nomura
- ANZ
- Goldman Sachs
- BNP Paribas SA
- NAB Australia
- FXALL

#### **Credit Derivatives**

- Deutsche Bank

Please note that NAME reserves the right to use other counterparties that are not listed above, where we deem appropriate in accordance with this Policy and may add or remove any counterparties from this list without notice. In addition, NAME will place a restriction on certain counterparties on a client by client basis in accordance with client instructions.

## Appendix 2 – RTS28 Reporting Requirements

Please find below the table suggested by ESMA/2015/1464 Annex II for the RTS28 report and note that it will be accompanied by a discursive text. Both are annually published at this <http://emea.nikkoam.com/>.



### Annex II

**Table 1**

Class of Instrument					
Notification if <1 average trade per business day in the previous year	Y / N				
Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class	Percentage of passive orders	Percentage of aggressive orders	Percentage of directed orders
Name and Venue Identifier (MIC or LEI)					
Name and Venue identifier (MIC or LEI)					
Name and venue identifier (MIC or LEI)					
Name and venue identifier (MIC or LEI)					
Name and venue identifier (MIC or LEI)					