

# Best Execution Policy

City Financial Investment Company Limited

December 2017

Prepared by:	Compliance
Version Number:	1.0
Date Last Approved:	December 2017
Approved by:	Investment Oversight Committee
Date Last Reviewed:	25 January 2018

## CONTENTS

1	INTRODUCTION.....	2
1.1	THE BEST EXECUTION OBLIGATION.....	2
1.2	APPLICATION OF FCA AND EU REGULATIONS .....	2
1.3	DIRECT AND INDIRECT EXECUTION.....	3
1.4	CLASSES OF FINANCIAL INSTRUMENT.....	3
1.5	APPLICATION OF POLICY TO NON-FINANCIAL INSTRUMENTS.....	3
1.6	EXECUTION FACTORS.....	3
1.7	EXECUTION CRITERIA .....	4
1.8	RELYING ON A SINGLE VENUE .....	5
2	THE EXECUTION PROCESS .....	6
2.1	PRIORITISATION OF THE EXECUTION FACTORS.....	6
2.2	TRANSMISSION OF ORDERS TO BROKERS.....	6
2.3	ELECTRONIC ORDER ENTRY AND TRANSMISSION .....	7
2.4	DIRECT ELECTRONIC ACCESS (“DEA”).....	7
2.5	OTC TRADES.....	7
2.6	DIRECT EXECUTION ON A TRADING VENUE .....	7
2.7	EXECUTING ORDERS OUTSIDE OF A TRADING VENUE .....	7
3	ARRANGEMENTS PARTICULAR TO EACH CLASS OF FINANCIAL INSTRUMENT.....	8
4	OTHER CONSIDERATIONS AFFECTING CHOICE OF METHOD OF EXECUTION.....	9
4.1	LARGE TRANSACTIONS .....	9
4.2	THINLY TRADED MARKETS .....	9
4.3	VOLATILE MARKETS.....	9
4.4	SHORT-TERM TRADING OPPORTUNITIES .....	9
4.5	MARKET CRISES.....	9
4.6	NICHE OR SPECIALIST MARKETS.....	9
4.7	OVERSEAS OR HARD TO ACCESS MARKETS .....	9
4.8	LINKED TRANSACTIONS.....	10
4.9	CROSSING TRANSACTIONS BETWEEN PORTFOLIOS.....	10
4.10	COUNTERPARTY EXPOSURE .....	10
4.11	REGULATORY COMPLIANCE.....	10
5	GOVERNANCE AND SENIOR MANAGEMENT OVERSIGHT.....	11
5.1	THE INVESTMENT OVERSIGHT COMMITTEE .....	11
5.2	ONGOING MONITORING OF EXECUTION QUALITY (FIRST LINE).....	11
5.3	PERIODIC MONITORING OF EXECUTION QUALITY (SECOND LINE).....	11
5.4	ESCALATION OF MI RELATING TO THE MONITORING OF EXECUTION QUALITY .....	12
5.5	BROKER ONBOARDING PROCESS.....	12
5.6	REMOVING A BROKER FROM THE APPROVED LIST .....	12
5.7	USE OF INFORMATION FROM CONSOLIDATED TAPE PROVIDERS .....	13
5.8	REVIEW AND OVERSIGHT OF BEST EXECUTION POLICY .....	13
6	CLIENT COMMUNICATIONS AND DISCLOSURES .....	14
	APPENDIX 1 – FINANCIAL INSTRUMENTS AS PER ANNEX 1 SECTION C OF MIFID II.....	17
	APPENDIX 2 – CLASSES OF FINANCIAL INSTRUMENT AS PER ANNEX 1 OF RTS 28.....	18

## 1 INTRODUCTION

This document (“the Policy”) sets out the approach taken by City Financial Investment Company Limited (“City Financial” or “the Firm”) in ensuring that the best outcome is obtained for its clients on a consistent basis when executing client orders and transmitting orders to third parties for execution.

This Policy has been updated to take into account new rules arising as a result of the implementation of the Markets in Financial Instruments Directive 2014/65/EU (“MiFID II”) that came into force on 3 January 2018. Other FCA Rules and Guidance have been taken into account in designing this Policy, as have other EU regulations and ESMA Guidance where appropriate.

This Policy applies only to the execution or transmission of client orders in Financial Instruments<sup>1</sup>, as defined in MiFID II, except where noted otherwise. It also reflects the fact that the Firm deals with both professional and retail clients.

### 1.1 THE BEST EXECUTION OBLIGATION

FCA rules place a high-level obligation on firms to ensure that client orders are executed on terms that are most favourable to that client, which is referred to as the ‘best execution obligation’.

MiFID II has further enhanced this standard, by requiring that firms take ‘all sufficient steps’ to obtain the best possible result for their clients on a consistent basis when executing orders.

For the purposes of this Policy and in relation to the best execution rules more generally, the term “client order” should be understood to mean all orders in financial instruments, whether they are executed direct in the market or transmitted to another firm to execute on the Firm’s behalf, which are carried out on behalf of a client. This includes orders that arise in relation to discretionary portfolio management and fund management activities, and therefore originate within the Firm rather than with the client. In this situation, the Firm still has a best execution obligation in relation to the execution of this order. Indeed, the obligation is widened in this situation as it applies both to the trader, in executing the trade order, and also to the portfolio manager when giving instructions to the trader (where these roles are separated). The portfolio manager must therefore also consider his best execution obligation when giving instructions to the trader on how the order is to be executed.

The Firm’s commitment to provide best execution does not impose any additional fiduciary duty upon the Firm over and above the regulatory obligations in place or any terms agreed on a contractual basis between the Firm and its clients.

### 1.2 APPLICATION OF FCA AND EU REGULATIONS

For investment firms authorised under MiFID, the best execution rules relating to direct execution are contained in Article 27 of MiFID II and the corresponding level 2 provisions<sup>2</sup>. Separate requirements apply when orders are transmitted to a broker (“indirect execution”) and these are set out primarily in Article 65 of the MiFID II Delegated Org Regulation<sup>3</sup>. These requirements have been implemented by the FCA in the UK in COBS 11.2A.

For Full Scope AIFMs, the best execution rules are found within Articles 27 and 28 of the Level 2 AIFMRs<sup>4</sup>. These are directly applicable to UK firms without needing to be transposed into UK rules or regulations. The FCA has, however, created additional best execution rules for Full Scope AIFMs that apply when acting as AIFM and these can be found in COBS 11.2. It should also be noted that due to cross-references within the AIFMD, the MiFID II best execution rules will apply where an AIFM conducts ancillary investment activities other than the management of an AIF. Since the Firm is a CPMI and also conducts ancillary investment activities (e.g. managed accounts), the MiFID II best execution requirements referred to above apply when undertaking these ancillary investment activities and the Firm must, in regard to these transactions only, apply the provisions of COBS 11.2A.

For UCITS Management Companies, the best execution rules are found in Article 25 of the UCITS implementing directive<sup>5</sup>, and these rules are transposed by the FCA in COBS 11.2B. It should be noted that where additional ancillary investment activities (e.g. segregated managed accounts or delegated portfolio management) are conducted by the Firm these will be subject to the full MiFID II rules referred to above.

<sup>1</sup> These are defined in Annex 1 Section C of the MiFID II Directive and reproduced in Appendix 1 for reference.

<sup>2</sup> For example, Articles 64 and 66 of the MiFID II Delegated Org Regulation and RTS 28.

<sup>3</sup> Commission Delegated Regulation (EU) 2017/565 of 25 April 2016

<sup>4</sup> Commission Delegated Regulation (EU) No 231/2013 of 12 December 2012

<sup>5</sup> Commission Directive 2010/40/EU of 1 July 2010

### 1.3 DIRECT AND INDIRECT EXECUTION

The nature of the best execution obligations differs depending on whether the Firm is executing orders directly, or whether these orders are being transmitted to third parties (i.e. brokers) for execution.

Direct execution includes situations where the Firm interacts directly with other counterparties to the trade, without going through a broker, and in addition covers situations where the Firm uses its own membership of a Trading Venue<sup>6</sup>, or otherwise places an order directly with an Execution Venue<sup>7</sup> in order to execute the trade.

Indirect execution refers to the practice of transmitting orders to brokers, for which the broker is then responsible for execution. These orders may be transmitted to the broker by a variety of methods, including by telephone, Bloomberg chat, email and electronic order entry and transmission systems (e.g. FIX).

The Firm primarily transmits orders to brokers, but in some situations, will also directly execute orders. The list of instruments in which the Firm trades, including a breakdown of which instruments are executed directly and indirectly is included in Appendix 2. The Firm primarily executes directly under an ISDA.

### 1.4 CLASSES OF FINANCIAL INSTRUMENT

Firms are required to tailor their execution policy to provide sufficient information on how orders are executed in relation to each class of financial instrument traded by the Firm. It is recognised that the process for executing liquid equity instruments will be very different to the process for executing OTC derivatives, for example, and a single undifferentiated policy is therefore likely to be overly generic. MiFID II provides a classification scheme for the different classes of financial instrument in Annex 1 of RTS 28, and this list is reproduced in full in Appendix 2 of this Policy.

The Firm currently actively trades in the below classes of financial instruments:

- Equities
- Equity derivatives
- Debt instruments
- Emission allowances
- Exchange traded products
- Interest rate derivatives
- Credit derivatives
- Currency derivatives
- Warrants and certificate derivatives
- Commodity derivatives and emission allowances derivatives
- Contracts for difference

Of these instruments, orders in equities, debt instruments, exchange traded products and emission allowances are always transmitted to a broker for execution and the Firm therefore only engages in indirect execution in relation to these instruments. Orders in certain derivatives are executed directly with counterparties and therefore the full MiFID II best execution rules apply in relation to these instruments.

The complete list of the different classes of MiFID II financial instruments is contained in Appendix 2 of this Policy, together with the Firm's assessment of which classes are actively traded by the Firm and which of these are directly and/or indirectly executed.

Where appropriate, this Policy will differentiate between the treatment of each of the above classes of financial instrument.

### 1.5 APPLICATION OF POLICY TO NON-FINANCIAL INSTRUMENTS

MiFID II best execution requirements only apply in relation to financial instruments as defined in MiFID II (see Appendix 1 and Appendix 2). However, the Firm is subject to a general regulatory obligation to treat clients fairly as well as to manage any conflict of interest, and as such it endeavours to deliver the best result to clients in all transactions.

### 1.6 EXECUTION FACTORS

The Firm is obliged to seek the best possible result for its client in relation to each trade. What constitutes the best possible result however may vary depending on the situation, and this may not always equate to obtaining the best price or the lowest

<sup>6</sup> A Trading Venue is defined as a Regulated Market, MTF or OTF.

<sup>7</sup> Execution Venues include regulated markets (i.e. exchanges), MTFs, OTFs, systematic internalisers, market makers and 'any other liquidity provider or an entity that performs a similar function in a third country'.

cost. The Firm is therefore required to consider and assess the relative importance of the relevant 'execution factors' in respect of each class of financial instrument in which it trades. The Execution Factors defined in FCA rules<sup>8</sup> are as follows:

- Price – This is the price at which a transaction is executed. Where the price has varied across the transaction the blended average price should be considered.
- Costs – This includes explicit external costs such as brokerage, exchange or clearing fees, as well as implicit costs such as spreads and slippage. This should be restricted to costs borne by the client and should not include the Firm's internal costs relating to trading.
- Speed – This refers to the amount of time that elapses between the trade order and the successful execution of that trade.
- Likelihood of execution and settlement – This refers to Firm's estimation of the probability that the trade order will be successfully completed either in whole or in part.
- Size – For large orders or illiquid instruments only a partial fill may be received and this may vary between brokers and venues. Where the whole trade order is unlikely to be filled, the size of the potential fill will increase in importance.
- Nature of the order and any other relevant considerations – This is a broad category that covers any other factor not listed in the regulations that firms may wish to prioritise in order to achieve the best result for its clients. Examples of this may be the need to maintain anonymity and/or reduce the market impact of the trade, the need to minimise or diversify counterparty exposure, and the need to meet regulatory requirements such as trade publication and reporting.

Generally, the prioritisation of the execution factors should be determined once, for each relevant class of financial instruments, and then this prioritisation should be applied to all relevant trading activity by the Firm. It may be desirable however, to apply different default prioritisations of the execution factors to specific instruments or trading strategies to be applied in specific situations. In addition, there may be situations where this prioritisation needs to be adjusted, for example due to exceptional circumstances such as volatile markets, credit events and geo-political events.

Further information is given on the Firm's prioritisation of the execution factors in different situations in Chapters 2, 3 and 4 below.

## 1.7 EXECUTION CRITERIA

FCA rules<sup>9</sup> also set out the 'execution criteria' that the Firm must take into account when executing a trade. These are the particular characteristics of each trade order which need to be taken into account before applying the Firm's execution process to achieve the best possible result for the client, where the 'best result' is defined by reference to the Firm's prioritisation of the execution factors as set out above. The execution criteria will vary potentially from client to client and from trade to trade and will therefore need to be assessed on a continual basis. These are defined as set out below:

- The characteristic of the client – For example whether they have been classified as retail or professional and whether they are a natural person, institutional investor or a fund. The level of sophistication, trading frequency and size of portfolio may also be relevant;
- The characteristic of the client order – Factors such as the type of financial instrument, size and urgency of the order are likely to be relevant here. In addition, if the trade is a securities financing transaction then this is likely to require special treatment. In some cases, the client order may also come with specific instructions from the client.
- The characteristics of the financial instrument – Intrinsic differences in the behaviour and attributes of different financial instruments mean that they will need to be treated differently. Market conditions should also be considered, such as whether there is liquidity at the size of order being contemplated, and whether there is significant volatility in the market;
- The characteristics of the execution venues – Relevant considerations here might be the reputation and reliability of the venue, whether the order will be subject to pre- and post-trade transparency, and the types of counterparty that the order is likely to be executed against (for example, whether the order is likely to be executed against high frequency trading firms.)

This Policy sets out in the following sections how the Firm applies the execution factors and execution criteria to achieve the best possible results for its clients on a consistent basis.

<sup>8</sup> See COBS 11.2A.2(2) for MiFID investment business, COBS 11.2.8 for AIFMD business and COBS 11.2.5A(2) for UCITS business.

<sup>9</sup> See COBS 11.2A.8 for MiFID investment business, COBS 11.2.6 for AIFMD business and COBS 11.2B.7 for UCITS business

## 1.8 RELYING ON A SINGLE VENUE

The FCA and ESMA have clarified<sup>10</sup> that it is permitted to rely on a single venue or broker to execute client orders. However, in order to demonstrate that best execution is being provided in this situation, firms must be able to show that its reliance on this single venue or broker provides the best possible result for its clients on a consistent basis, and that the results are at least as good as could be obtained from relying on other entities.

The Firm's policy is to not rely on a single execution venue or broker for executing any class of financial instrument traded. Wherever possible, the Firm will ensure that its list of approved brokers and execution venues contains at least two possible choices for each class of instrument traded.

The exception to this will be where there is only a single venue or broker available in the market that is able to execute the class of instrument in question. In this situation, the Firm will rely on this entity for execution but will monitor the market for the emergence of other entities that can provide a similar function.

When executing trades in a context where the Firm only has a single execution venue or broker available, the Firm will focus on the other aspects of the trade execution that it can control in order to achieve the best outcome for the client. This will include the instructions attached to the trade (e.g. limit orders, 'fill or kill', peg orders, good till cancelled, 'iceberg orders'), the timing of the trade, whether to divide the trade into smaller orders and whether to make use of any available pre-trade transparency waivers. The options will be assessed in line with the characteristics of the order and the Firm's assessment the prioritisation of the execution factors.

---

<sup>10</sup> See COBS 11.2A.29G, COBS 11.2A.36G and question 3 of the best execution section of the ESMA Q&A on MiFID II and MiFIR investor protection topics (ESMA35-43-349)

---

## 2 THE EXECUTION PROCESS

### 2.1 PRIORITISATION OF THE EXECUTION FACTORS

In terms of the relative importance attached to the execution factors, the Firm has a general view and process which it adapts based on the particular characteristics (i.e. the execution criteria) of each trade.

Where the Firm is dealing with retail clients, the Firm should prioritise price and cost together in order to achieve the best financial result for the client in terms of total consideration for the trade. This should include the Firm's own costs, to the extent that they are passed on to the client, which means that in most cases the Firm is obliged to select the execution method, venue or broker that minimises the costs passed on to the client. The exception to this would be where the selection of a more expensive method of execution leads to a demonstrably better outcome in terms of total consideration for the trade due to an improved price being received.

The other execution factors however, including speed, size and likelihood of execution can and should still be considered, where relevant, and particularly where price and costs are distributed in a narrow range between the available execution options. It may also be necessary in extreme circumstances to prioritise the speed and probability of execution, for example in situations where the imminent failure of a counterparty may cause the total loss of the client's investment. In this situation delaying the transaction to prioritise achieving a better price/cost for the trade is not justifiable as it is likely to lead to worse overall financial outcome for the client.

In relation to professional clients, the first execution factor to consider is the probability of execution. The priority here will be to assess which brokers and execution venues are capable of executing the order on the required terms. In normal market conditions, however, this is a relatively straightforward exercise that will produce a range of equally ranked execution options for further consideration under the remaining execution factors. Situations where this assessment produces a very narrow range of options due to various special circumstances are considered further in the various scenarios set out in section 4 below.

Following this, and assuming a range of execution options exist, the highest priority factor is to obtain the best result for the client in terms of the total consideration for the trade, defined as the total price obtained minus any costs or fees. This will either be the highest total price or the lowest total price (net of costs and fees) depending on the direction of the trade. In most situations this will be determined predominantly by the price achieved, although where the price offered by two or more brokers or execution venues are identical or within a narrow range<sup>11</sup>, or cannot be reliably determined in advance, then the one with the lowest overall cost of execution will be chosen. This analysis will include the implicit costs of the trade, such as slippage and market impact.

Where the Firm considers that it is able to take steps to reduce the costs of execution, and therefore improve the total consideration for the trade as defined above, then it will do so. Examples of this would include reducing the implicit costs of execution by reducing the market impact, which might be achieved by splitting the trade between multiple brokers or execution venues, trading over a longer time period or using algorithms.

The other execution factors do not typically determine the way a trade is executed, although on occasion where there are specific relevant circumstances these factors may be escalated in prioritisation. These situations are set out in section 4, below.

### 2.2 TRANSMISSION OF ORDERS TO BROKERS

A broker will be selected based on the Firm's assessment of the execution criteria in relation to that particular trade order, and in accordance with its prioritisation of the execution factors. This will typically lead to the broker being selected that is expected to provide the most favourable outcome for the client in terms of the price/cost of the trade, although other factors will be taken into consideration.

The broker onboarding process and annual review of brokers are described in section 5, and these processes will involve a more detailed review of the broker's execution policy, RTS 27/28 disclosures and execution quality received. The outcome of these processes will be that brokers are added to and removed from the approved broker list with a view to improving the execution quality obtained by the Firm for its clients.

---

<sup>11</sup> A 'narrow range' here means that the difference in price is less than the difference in costs and fees.

The Firm is able to transmit orders to brokers in the following ways:

- Telephone
- Email
- Bloomberg Chat
- FIX
- Direct Electronic Access (DEA)

### 2.3 ELECTRONIC ORDER ENTRY AND TRANSMISSION

The Firm is able to transmit orders to its brokers using an electronic order entry and transmission facility that transmits the order to the broker and allows the broker to 'work an order' on the Firm's behalf within the market. This arrangement may allow the Firm to specify the execution venue, although it should be noted that direct access to the execution venue is not provided and therefore it is still the broker that is executing the order.

The Firm uses the Paladyne, Kynex, PortfolioOne and Linedata systems for this purpose which utilise the FIX protocol and EMSX to transmit the orders to the broker.

The Firm considers that in some situations this arrangement can carry lower explicit costs, as well as maximising the trading opportunity by delivering quicker execution.

### 2.4 DIRECT ELECTRONIC ACCESS ("DEA")

The Firm makes use of direct electronic access arrangements, whereby the Firm is given direct electronic access to the trading venue via a broker and using the broker's membership of that trading venue. This enables the Firm to 'work an order' direct on the trading venue without any additional assistance or intervention from the broker which provided this electronic access. This arrangement is referred to as DEA ("Direct Electronic Access") under MiFID II.

The Firm considers that this arrangement gives the Firm an increased ability to deliver best execution, to monitor trading activity more effectively and change the parameters of a trade to respond to external factors in real-time.

For regulatory purposes, the FCA has stated that DEA should be considered as "Direct Execution", notwithstanding the fact that a broker's membership of the trading venue is being used, as the broker has limited influence over how the order is being executed.

### 2.5 OTC TRADES

The Firm typically executes OTC trades in relation to interest rate, equity and commodity derivatives subject to an ISDA agreement. These are generally bespoke instruments.

The Firm acts in a discretionary capacity for clients when executing orders in OTC markets. This involves using experience and professional judgement to determine which counterparties to approach to quote a price. Where possible, multiple counterparties will be approached in order to put them in competition with each other and therefore provide a price discovery mechanism for the trade in question. Generally, the best price will be selected from this list, unless this is overridden by the prioritisation of other execution factors over price due to the specific characteristics of the trade. An audit trail of all quotes received prior to execution will be kept on record.

### 2.6 DIRECT EXECUTION ON A TRADING VENUE

The Firm has direct membership of a number of trading venues. The execution venue will be selected from this list based on the Firm's assessment of the execution criteria in relation to that particular trade order, and in accordance with its prioritisation of the execution factors. This will typically lead to the execution venue being selected that is expected to provide the most favourable price at which to execute the trade.

Where there is only one execution venue available for execution of the order, the Firm will only use that single venue to fill the order.

### 2.7 EXECUTING ORDERS OUTSIDE OF A TRADING VENUE<sup>12</sup>

The Firm will, on occasion, execute orders outside of a Trading Venue, for example in relation to OTC trades. There is an obligation to obtain client consent as a result of these trades being executed outside a Trading Venue.

<sup>12</sup> A Trading Venue is defined as a Regulated Market, MTF or OTF.



### 3 ARRANGEMENTS PARTICULAR TO EACH CLASS OF FINANCIAL INSTRUMENT

The firm trades in the following financial instruments which have varying levels of liquidity. The Firm therefore applies its standard prioritisation of the execution factors to these trades, as described in section 2.1 above. These orders are typically transmitted to brokers by telephone or Bloomberg Chat. There may be some specific circumstances where the trade order will require modified treatment, such as for example during a market crisis or for large-in-scale orders, and the treatment of these situations is set out in section 4.

- Equity instruments
- Debt instruments
- Interest rate derivatives
- Credit derivatives
- Equity derivatives
- Securitised derivatives
- Commodity derivatives (including emission allowance derivatives)
- CFDs
- Emission allowances
- Exchange traded products - The category of exchange traded products includes exchange traded funds, exchange traded notes and exchange traded commodities.
- Currency derivatives - The Firm does trade in currency derivatives, for both speculative and hedging purposes. FX trades are typically prime-brokered which allows the Firm to source liquidity from a variety of execution banks (or give-up banks) whilst consolidating trade allocation, the credit relationship (where applicable), confirmation and settlement with one or more FX prime brokers. The FX prime broker(s) charges volume based clearing fees for this service. Customers who select a clearer other than the FX prime broker may also be subject to the clearing fees of that clearer.
- Structured finance instruments - The Firm does not trade in structured finance instruments and therefore these are outside the scope of this Policy. In the event that the Firm intended to start trading these types of instruments then this would require a material change to this Policy.
- Other MiFID II instruments - Examples of MiFID II financial instruments other than those listed in Annex 1 of RTS 28 include units in unlisted investment funds. The Firm does not trade in any such instruments therefore these are outside the scope of this Policy. In the event that the Firm intended to start trading these types of instruments then a material change to this Policy would be required.
- Securities financing transactions - Securities financing transactions (“SFTs”) are defined as being any one of the following types of transactions:
  - (a) a repurchase transaction, as defined in article 3(9) of the SFTR<sup>13</sup>;
  - (b) securities or commodities lending and securities or commodities borrowing as defined in article 3(7) of the SFTR;
  - (c) a buy-sell back transaction or sell-buy back transaction as defined in article 3(8) of the SFTR; and
  - (d) a margin lending transaction as defined in article 3(10) of the SFTR.

The instruments that are the subject of these transactions are likely to be MiFID II financial instruments that fall into one of the above categories. However, due to the particular features of these transactions it is likely that special execution arrangements will be employed that will differ from normal transactions. In addition, these transactions need to be separately disclosed in any RTS 28 disclosures and furthermore are subject to special treatment in relation to transaction reporting. As a result, the Firm should be aware of which transactions are classified as SFTs and be able to track these separately from other transactions.
- Detailed consideration of the rules around SFTs are outside the scope of this Policy, which is only concerned with their treatment from a best execution perspective.

Other investments outside the scope of MiFID II - Examples of investments that fall outside the scope of MiFID II financial instruments include spot FX, real estate, commodities, loans, art, fine wine and cryptocurrencies. The Firm actively invests in spot foreign exchange transactions and many spot commodity and bullion contracts on behalf of its clients. This trading is outside the scope of this Policy.

<sup>13</sup> The “Securities Financing Transactions Regulation”, which is Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015.

---

## 4 OTHER CONSIDERATIONS AFFECTING CHOICE OF METHOD OF EXECUTION

### 4.1 LARGE TRANSACTIONS

Where the size of the order is large compared to the available liquidity in the market for the instrument in question, the execution criteria of 'size' will become of critical importance. This may mean that price and cost are deprioritised to an extent and that trades may be executed in a manner that prioritises achieving a higher executed quantity. The Firm will still make every effort to achieve the best possible price for the trade, and at the lowest cost, but this strategy may result in a worse average unit price being achieved than if a lower transaction size was settled upon. This process will take place within certain limits, to be determined at the time of placing the trade order, and it is unlikely that any transaction will ever be executed without any reference whatsoever to the price and cost. The investment thesis and trade rationale will determine the maximum price that the Firm is willing to pay in the transaction. In these circumstances, the priority factor will normally be either the counterparty's ability to complete the transaction successfully and the price at which it is likely to be executed. Consequently, the costs of the transaction in terms of the Counterparty's commission will be attributed a relatively low priority, reflecting the importance of the selection of a broker known to have the required expertise to achieve execution in these circumstances.

### 4.2 THINLY TRADED MARKETS

Where instruments are not fungible and/or there are limited execution venues, the Firm will focus on the likelihood and size of execution (and possibly speed, dependent on the external environment) to deliver best execution. For example, in thinly traded markets, where price points are not available best result for the client may be achieved by focussing on the immediacy and likelihood of execution and settlement if only a single counterparty is willing to take the other side of the trade.

### 4.3 VOLATILE MARKETS

Where markets are seen to be particularly volatile, either across the market as a whole or in relation to the particular instrument that is the subject of the trade order, then the speed of execution will be escalated in importance. This is because in this situation the price could move rapidly against the Firm, or the liquidity could evaporate, meaning that any delay in execution could result in either a worse price being achieved or in the desired trade not being completed at all. When the price of the contemplated stock is moving quickly, either as a result of news relating specifically to that instrument or because of wider market movement, speed of execution will usually be the priority factor. The achievement of rapid execution is achieved either through an appropriate DMA, if available, or a large Broker/Counterparty known to be capable of achieving fast execution in the circumstances and in the stock in question. Second to speed, will be successful execution, followed by the question of cost. In these circumstances the price factor is inevitably de-prioritised.

### 4.4 SHORT-TERM TRADING OPPORTUNITIES

There may also be situations where the nature of the investment opportunity identified is highly time-dependent. The Firm is generally a long-term investor, but will occasionally engage in opportunistic trading that may require faster execution in order to take advantage of the available opportunity within the market. Price will still usually be a high priority factor in this situation, as it will be the potential for the price to move against the Firm over a short time period that results in the need to execute the trade quickly.

### 4.5 MARKET CRISES

Where there is an interruption in trading at a major exchange, or the possibility of turbulent markets due to the failure of counterparties then the likelihood of settlement may be the execution factors focussed on. The management, diversification and minimisation of counterparty risk will also become a critical issue in this situation.

### 4.6 NICHE OR SPECIALIST MARKETS

In the case of niche or specialist markets, the range of available brokers or execution venues that are able to complete the trade may be more limited. In addition, the geographical location, relevant experience and track record of the broker in relation to the specific instrument that is the subject of the trade order is likely to become a deciding factor. In this case, price and likelihood of execution are likely to be more important, with the importance of cost lessened as it will be necessary to engage the broker with the relevant skills to complete the trade.

### 4.7 OVERSEAS OR HARD TO ACCESS MARKETS

In relation to investments in certain overseas or otherwise hard-to-access markets, the geographic location and sector-specific expertise of the broker may become of paramount importance. In this situation, it is likely that the choice of brokers will be limited, and while the Firm will still focus on achieving the best possible result for the client, this situation may lead to higher costs or a wider spread being obtained than would normally be the case.

#### **4.8 LINKED TRANSACTIONS**

Special consideration is required where multiple transactions are linked. This may be the case when dealing in an instrument and placing a corresponding derivative transaction on the same underlying instrument. This may occur for example when dealing in convertibles and shorting the equity. In these circumstances the Firm's policy is to seek to combine the transactions and place them with a single Broker/Counterparty, to avoid unnecessary exposure to the fund. In doing so, the Firm will, for the combined transaction, prioritise the likelihood of successful combined execution.

#### **4.9 CROSSING TRANSACTIONS BETWEEN PORTFOLIOS**

The Firm may occasionally execute transactions between different portfolios managed by the Firm. City Financial only conducts cross trades in the market at typically the average of the highest bid and the lowest current offer determined on a basis of quotes from multiple brokers.

#### **4.10 COUNTERPARTY EXPOSURE**

On occasion, it may be necessary to alter the method of execution in order to manage the exposure of the Firm to a particular counterparty. This may be necessary either for general risk management purposes, as the exposure is deemed to be too concentrated, or due to a change in credit rating of a particular counterparty or other market events that lead the Firm to want to reduce its exposure. This may on occasion result in a trade being executed with a counterparty other than the one that appeared to be offering the best price and cost.

#### **4.11 REGULATORY COMPLIANCE**

There may also be other regulatory reasons why it is necessary to exclude certain brokers from the pool of brokers being considered for a particular transaction, regardless of the other terms that they are offering. This may be necessary to ensure that the Firm's obligations are fulfilled with respect to pre- and post-trade transparency or with respect to transaction reporting under either MiFID, EMIR or the SFTR.

---

## 5 GOVERNANCE AND SENIOR MANAGEMENT OVERSIGHT

### 5.1 THE INVESTMENT OVERSIGHT COMMITTEE

Senior management oversight of the Best Execution Policy, the underlying trading arrangements in place to provide best execution to its clients, and the first and second line monitoring undertaking to demonstrate best execution is provided by the Investment Oversight Committee. This committee is attended by the relevant Fund Manager, Risk, the Chief Compliance Officer and the CEO. The operations, responsibilities and function of the Investment Oversight Committee are set out in more detail in the following sections.

The Investment Oversight Committee is responsible for ensuring internal policies and procedures deliver best execution, annually reviewing and if necessary updating the Firm's Best Execution Policy, monitoring the effectiveness of brokers and execution venues and seeking to identify trends in execution quality or potential deficiencies in processes to deliver continual improvement in the execution quality obtained for the Firm's clients.

This Committee meets quarterly and minutes are taken, with actions arising being documented. All changes are fed back to and discussed as necessary with the front office and compliance team (who participate in meetings) to ensure understanding of the new requirements and for delivery of actions on an ongoing basis.

### 5.2 ONGOING MONITORING OF EXECUTION QUALITY (FIRST LINE)

The ongoing monitoring of execution quality and 'first line' controls are undertaken by City Financial's trading desk and individual traders/portfolio managers with independent scrutiny carried out by the compliance team as the 'second line of defence'. The first and second lines of defence are therefore primarily responsible for ex ante and ex post monitoring of best execution on an ongoing basis, with oversight of this monitoring undertaken by senior management by way of the Investment Oversight Committee.

The trading team are overseen by the Chief Investment Officer who reviews the Firm's trades on a real-time basis and is able to identify and undertake remedial action if required.

End of day reviews are undertaken with a view to ensuring that the quality of execution has met the required standards. In particular, this aims to identify any potential outliers or deficiencies in trade execution so that remedial action can be taken.

For orders executed on a "Request for Quote" (RFQ) basis, such as fixed income instruments (i.e. bonds) an audit trail of competing quotes will be recorded and maintained in the trade blotter (typically, at least three quotes). Monitoring takes place by the front line and by sample-based testing, with the methodology linked to number, type and size of trades amongst other factors. Where competing quotes are either not available or where such activity may lead to an increase in price, the Firm's monitoring of execution quality will consider the last quoted price, availability of comparable data, or internal valuation models.

When executing OTC, an audit trail of competing quotes will be maintained and reviewed and recorded in the trade blotter where there are potential execution venues (i.e. counterparties who may be able to fulfil the trade). Otherwise, internal models are used to establish the fair price for the trade and therefore to assess the fairness of the prices being offered. A record of these internal models and fair price calculations is maintained for use in the periodic monitoring of execution quality.

The First line monitoring of execution quality takes place on a daily basis, as well as ongoing monitoring occurring in real-time as the trading is taking place. The output of these daily checks is used in the second line monitoring described below.

### 5.3 PERIODIC MONITORING OF EXECUTION QUALITY (SECOND LINE)

Independent monitoring of the quality of execution obtained is undertaken by compliance as the 'second line of defence'. Testing is undertaken on a sample basis, using quantitative and qualitative techniques. The monitoring considers the entirety of the Firm's trading operations where best execution is relevant, and considers how individual trades were carried out using a combination of internal and external data. Analysis and/or Management Information (MI) is subsequently provided to the Best Execution Committee for review and comment.

Where any exceptions or outliers are identified, these are discussed with the trader and portfolio manager in the first instance, and if necessary the executing broker may also be contacted to obtain further information on why the price of execution (or other factors, as identified) did not meet the expected standards. Where immediate remedial action can be taken this is done, and the results of this analysis (whether positive or negative) are provided to the Best Execution Committee as part of the periodic reports.

Separate monitoring is performed on trades that have been tagged to indicate that they were executed on a basis other than the Firm's standard prioritisation of the execution factors, meaning that the price and cost of execution were not the primary

factors. In this situation, the priority execution factor is taken into consideration so that the monitoring can verify whether this outcome was achieved.

The periodic second line monitoring is undertaken on a quarterly basis. The output of these checks is provided to the Best Execution Committee.

#### **5.4 ESCALATION OF MI RELATING TO THE MONITORING OF EXECUTION QUALITY**

The Best Execution Committee meets on a quarterly basis, and receives a report from the Compliance Officer which includes the output of the monthly monitoring of execution quality undertaken by the second line of defence. This information is used to inform senior management that best execution is being delivered to clients, and the Best Execution Committee will also consider whether any changes are required to the Best Execution Policy or the Firm's underlying execution arrangements, and whether any further remedial action is required.

#### **5.5 BROKER ONBOARDING PROCESS**

The Firm has a rigorous process for onboarding new brokers. Typically, a request to add a new broker to the approved broker list will come from the investment team, based on its experience of executing trades with the currently approved brokers, previous experience with other firms, information received from market counterparts and potentially the desire to start trading a new instrument.

An assessment will then take place that will take into consideration the following factors:

- Regulatory status
- Size
- Creditworthiness
- General reputation
- Specific reputation in relation to the market or securities
- Clearing and settlement capabilities
- Connectivity (i.e. ability to submit trades electronically versus over the phone)
- Availability and effectiveness of algorithms
- Level and structure of fees and charges
- Any other relevant considerations, such as the ability to assist the Firm in fulfilling regulatory requirements such as EMIR transaction reporting

A copy of the broker's own execution policy will be obtained and reviewed as part of this process.

In addition, and where available, the Firm will obtain copies of any public disclosures the broker has made under RTS 28 along with any other public and regulatory disclosures that are deemed relevant such as the broker's Pillar 3 disclosures.

Any potential conflicts of interest will be assessed at this stage, including any close links, affiliation or common ownerships, as well as the nature of any proposed fee arrangements including rebates or discounts. For the avoidance of doubt, payment for order flow arrangements will not be entered into in any circumstances.

Where approval is granted by both Risk and Compliance groups, this will include reference to which classes of financial instrument the broker has been approved, as it may be that a broker has been assessed as being able to provide best execution in a narrower range of instruments than the Firm trades, or that the broker is able to execute. Where changes are required, for example, where the investment team wants to start using an existing broker for an additional class of financial instruments, these changes will be ratified by the Investment Oversight Committee.

For the avoidance of doubt, the quality or volume of research provided by brokers will not be a factor in the selection of that broker for trade execution. The provision of material non-monetary benefits unrelated to execution will also not form part of the analysis. Please see the Firm's separate Research Policy for more information.

#### **5.6 REMOVING A BROKER FROM THE APPROVED LIST**

Where a broker is found to be not providing best execution for the Firm's clients on an ongoing basis, this broker will be removed from the list of approved brokers. The Best Execution Committee will be responsible for making this determination and has the authority (and responsibility) to add and remove brokers from this list as necessary.

Brokers may on occasion be removed for other reasons, for example because they are not being used, because the costs of maintaining an active relationship with them are too high, regulatory issues or concerns about the solvency of the broker, or because they have ceased trading or merged with another broker, or otherwise altered their service as to no longer be useful to the Firm.

## **5.7 USE OF INFORMATION FROM CONSOLIDATED TAPE PROVIDERS**

The Firm is aware of the requirement to use the data published by any consolidated tape providers established under Article 65 of MiFID II. Since at the time of finalising this policy no such Consolidated Tape Providers existed and no relevant data had been published, no detailed procedures exist at this time for the use and analysis of this data. The Investment Oversight Committee will be responsible for reviewing and augmenting the Best Execution Policy to determine how this information can be efficiently used by the business once it becomes available.

## **5.8 REVIEW AND OVERSIGHT OF BEST EXECUTION POLICY**

The Best Execution Committee will review and approve any necessary changes to this Policy. This review will take place at least annually and will be led by the Chief Investment Officer who will review and propose any necessary changes to the Policy before this is presented to, discussed and approved by the Committee. The results of the periodic monitoring of execution quality described above, as well as the periodic broker assessments undertaken will form part of this review. This will allow the Best Execution Committee to assess whether the Policy is being adhered to and whether the Policy itself is sufficient to deliver the best outcome for clients on a consistent basis.

The Committee will also consider as part of this review whether any changes made represent a 'material change' that needs to be notified to clients. Further details on this are provided in section 6.

## 6 CLIENT COMMUNICATIONS AND DISCLOSURES

### 6.1 DISCLOSURE OF APPROPRIATE INFORMATION TO CLIENTS

It is an FCA requirement<sup>14</sup> that Firms provide clients with ‘appropriate information’ on their Order Execution Policy (“OEP”), which explains how orders will be executed clearly, in sufficient detail and in a way that can be easily understood by clients. It is not necessarily a requirement that the OEP itself be provided to clients, and depending on how the OEP is written, it may not be sufficient to just provide the OEP to clients in order to meet the disclosure requirements. This might be the case, for example, if the OEP was written in such a way that it could not be easily understood by clients.

The Firm’s policy is to meet the disclosure requirements by providing a copy of this Policy (the Best Execution Policy) to its clients. The Firm has made every effort to write this Policy in such a way as to meet the disclosure requirements, namely by providing sufficient details on how orders will be executed and writing it in a way that can be easily understood by clients. While the detail within this Policy goes beyond the ‘appropriate information’ requirements in places, the Firm believes that this information provides clients with additional comfort that best execution is being provided.

It will not normally be necessary to provide the Best Execution Policy itself to investors in the Firm’s AIFs, although the Firm may decide to do so on a case-by-case basis if it deems it to be appropriate in the circumstances.

For UCITS schemes, the Firm’s policy is to make this information available to investors in the scheme by providing this information in the prospectus of the scheme. This disclosure will be drafted in line with the requirements in COBS 11.2B.31 to 35. The Compliance Officer will be responsible for drafting this additional disclosure which will then be approved by the Investment Oversight Committee, before inclusion in the prospectus. It will not normally be necessary to provide the Best Execution Policy itself to investors in the UCITS scheme, although the Firm may decide to do so on a case-by-case basis if it deems it to be appropriate in the circumstances.

### 6.2 Client consent to the Firm’s execution policy

Where firms provide direct execution on behalf of clients, it is a requirement to obtain the client’s consent to the Firm’s execution policy prior to commencing this business.

Since the Firm does directly execute trades in some situations, it is therefore required to obtain the client’s consent. It is the Firm’s policy to obtain explicit written consent from all direct investors to its execution policy as part of its client classification process. This includes any segregated managed accounts as well as the fund board of any funds being managed. In relation to investors in these funds, implicit consent is assumed if they choose to continue with their investment after having received the appropriate information on the execution policy in the fund’s offering documents.

Since the Firm executes client orders outside of a Trading Venue, explicit consent is also required from the client. The following section provides more details.

### 6.3 CLIENT CONSENT TO EXECUTING OUTSIDE A TRADING VENUE

Where the Firm proposes to directly execute trades outside a Trading Venue<sup>15</sup>, the Firm is also required to obtain a client’s prior express consent. In this case, implicit consent to the Firm’s execution policy in its entirety is not sufficient and explicit, written consent is required to execute the client’s orders outside of a Trading Venue. This consent can be obtained either electronically or by way of a physical signature.

The Firm will execute client orders outside of Trading Venues, and therefore explicit consent will be required from the client before the provision of investment services can commence.

### 6.4 NOTIFICATION OF MATERIAL CHANGES

The Firm will review this Policy at least annually, making updates where necessary. This review will be performed by the Investment Oversight Committee. Any material changes that are made to the Policy as a result of these reviews will be notified to clients. Where changes are made, the Best Execution Committee will also consider, as part of its review, whether the changes are material enough to require such notification.

As a general rule, the addition or removal of a broker from the list of approved brokers is not considered a material change and will not require specific notification to clients. Examples of material changes are likely to be the Firm starting to trade a

<sup>14</sup> COBS 11.2A.22R for MiFID business, COBS 11.2.23A for AIFMD business and COBS 11.2B.31 for UCITS business

<sup>15</sup> A Trading Venue is defined as a Regulated Market, MTF or OTF. Note that since these are all European regulatory concepts, it is likely that orders executed outside of the EEA would be considered ‘outside of a Trading Venue’ even if the Execution Venue itself was similar in nature to an EEA Trading Venue. An example of this would be the national stock exchange of a non-EEA country.



new type of instrument, which requires new and different execution arrangements to be put in place, or substantial changes to the Firm's existing execution arrangements.

## 6.5 SPECIFIC CLIENT INSTRUCTIONS

If the Firm receives an order from a client that includes specific instructions in relation to the handling and execution of the order (such as requesting a particular execution venue, specifying a particular price or time or requesting the use of a particular strategy) then, subject to its legal and regulatory obligations, the Firm will execute the client's order in accordance with these specific instructions. This means that to the extent of the specific instructions, the Firm's obligation of best execution will be satisfied by executing the order in accordance with the specific instructions.

Where a specific instruction covers only a portion of an order (for example, as to the choice of venue), and the Firm has discretion over the other elements of the order, then the Firm will continue to owe an obligation of best execution in respect of the remaining elements of the order that are not covered by the specific instruction.

## 6.6 DISCLOSURE OF INDUCEMENTS, CONFLICTS AND FEES

The Firm is required to maintain a Conflicts of Interest Policy identifying the circumstances that constitute or may cause a conflict of interest with potential material risk or damage to the interests of one or more of its clients. The Conflicts of Interest Policy in place outlines the procedure that the Firm will follow to manage such conflicts. This requirement applies to potential conflicts of interest that may arise between the Firm and its clients as a result of its execution arrangements which could prevent it from satisfying its best execution obligations. The Firm handles all potential conflicts of interest that can arise in the execution of a client order/transaction according to its Conflicts of Interest Policy. Further information can be obtained from the Compliance Officer.

The Firm is not permitted to receive any benefit for routing client orders to a particular trading or execution venue as this could be considered an inducement and conflict of interest. Payment for order flow is also therefore prohibited and the Firm does not engage in this practice.

The Firm does not apply different charges or fees when executing trades or transmitting trade orders. Nor does it apply different charges to clients for use of different execution venues. For the avoidance of doubt, the Firm does not receive any benefits from third parties for selecting different brokers or execution venues nor does it charge more than one participant in a transaction.

## 6.7 DISCLOSURE TOP 5 EXECUTION VENUES AND BROKERS (RTS 28)

Where a firm executes trades for clients, it is required under RTS 28<sup>16</sup> to make an annual disclosure of the top five execution venues where orders were executed, broken down for each class of financial instrument traded. Where firms also execute trades indirectly by transmitting orders to brokers, an equivalent disclosure of the top five brokers is also required under COBS 11.2A.34 EU (6). Where both direct and indirect execution takes place, these reports must be made separately.

Since the Firm executes orders directly and transmits trade orders to brokers for execution, it will need to make two sets of RTS 28 disclosures. Appendix 2 provides a breakdown of which instruments are executed and how, and therefore which RTS 28 disclosure they will need to be disclosed in.

Note that since the Firm is a Full Scope AIFM/UCITS Management Company, the RTS 28 requirements technically only apply in relation to its MiFID business, which includes its segregated managed accounts but excludes<sup>17</sup> its AIFMD and UCITS business.

This information should be broken down by class of financial instrument, as set out in Appendix 2 of this Policy and defined in Annex I of RTS 28. The format of the disclosure should be made in line with Annex II of RTS 28, and must be made separately for retail clients, professional clients, and in relation to securities financing transactions (tables 1, 2 and 3 respectively), if any such transactions took place.

RTS 28 in its entirety, along with the annexes and tables referred to above is reproduced in COBS 11 Annex I EU. It should be noted that the data only needs to be provided where trading has taken place in relation to the financial instrument in question. In addition, where the Firm has executed less than one trade on average per business day during the year in the financial instrument in question, it is sufficient to state this fact rather than providing a breakdown of execution venues.

<sup>16</sup> As reproduced in COBS 11 Annex 1 EU.

<sup>17</sup> Although note however that it includes any AIFs or UCITS where the Firm acts as delegated portfolio manager and is not acting directly as the AIFM or the UCITS Management Company.



In relation to portfolio management business and the reception and transmission of orders, ESMA have clarified that the concept passive orders and aggressive orders is not generally relevant, unless specific instructions have been attached to the order that suggest otherwise. This field can therefore be omitted in this context.

The Compliance Officer is responsible for ensuring that the investment team have systems and processes in place to retain all relevant data to enable these disclosures to be made as required on an annual basis.

## 6.8 RTS 28 – QUALITATIVE DISCLOSURE OF EXECUTION QUALITY

The reports referred to above should be accompanied by information on the execution quality obtained. This will take the form of a summary of the analysis conducted by the Firm and the conclusions drawn from its regular monitoring of execution quality and should include at a minimum:

- An explanation of the relative importance the Firm gave to each of the execution factors in selecting an execution venue or broker. Where appropriate, this should be broken down by class of financial instrument.
- A description of any close links, conflicts of interest or shared ownership with any execution venue or broker used.
- A description of any specific arrangements regarding payments, rebates, discounts or non-monetary benefits given to or received from any execution venue or broker used.
- Where the Firm's list of approved execution venues or brokers changed, an explanation of the factors that led to such a change.
- Where relevant, an explanation of how order execution differed according to client categorisation (i.e. between retail and professional clients)
- Where relevant, an explanation of how and why any other execution factors were given precedence over cost and price in relation to retail clients and how this improved the outcome for the client in terms of total financial consideration.
- An explanation of how the Firm used any data published by execution venues under RTS 27 or brokers under RTS 28.
- Where applicable, an explanation of how the Firm used the output of a consolidated tape provider

City Financial operations team is responsible for drafting these reports. The reports will then be provided to the Best Execution Committee for approval and sign-off, alongside other monitoring of execution quality performed by the Firm to ensure that they are consistent.

These reports will be prepared on an annual basis, covering the calendar year. The first report due will cover 2017, although since this period covers the calendar year prior to the one when MiFID II (and this Policy) came into force, it is recognised that some of the required information may not be present.

These reports will be published no later than four months after the end of each calendar year (i.e. no later than 30 April). The reports will be hosted on the Firm's website, in machine readable format (i.e. not as a graphic) and will not have any access restrictions. The Firm will ensure that each report stays on the Firm's website for at least two years after it is first published.

It is the responsibility of the Compliance Officer to ensure that these reports are published on a timely basis, comply with the relevant requirements and remain accessible on the Firm's website for the minimum period of two years.

## 6.9 DEMONSTRATING BEST EXECUTION TO CLIENTS AND THE FCA

The Firm is obliged by FCA rules<sup>18</sup> to be able to demonstrate to clients, on request, that all trades have been executed in accordance with this Policy. This obligation does not generally extend to the underlying investors in any fund although such information can be provided to them upon request at the Firm's discretion. It does however extend to the fund board, which should be considered the Firm's client for these purposes.

In relation to MiFID business only there is a further new requirement<sup>19</sup> that the Firm must be able to demonstrate to the FCA, upon request, that best execution has been achieved. This requirement goes beyond just demonstration that the execution policy has been adhered to.

The Firm considers that this Policy, along with the detailed monitoring of execution quality undertaken and the reports escalated to and ratified by the Investment Oversight Committee, along with the RTS 28 reports (qualitative and quantitative) published annually, are sufficient to demonstrate the Firm's adherence to this Policy and to demonstrate more widely that the Firm has taken all sufficient steps to provide best execution to its clients and that this has been delivered on a consistent basis.

<sup>18</sup> COBS 11.2A.32 for MiFID business, COBS 11.2B.23 for UCITS business and COBS 11.2.29 for AIFM business

<sup>19</sup> COBS 11.2A.32

---

## APPENDIX 1 – FINANCIAL INSTRUMENTS AS PER ANNEX I SECTION C OF MIFID II

- (1) Transferable securities;
- (2) Money-market instruments;
- (3) Units in collective investment undertakings;
- (4) Options, futures, swaps, forward rate agreements<sup>20</sup> and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances<sup>21</sup> or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
- (5) Options, futures, swaps, forwards and any other derivative contracts relating to commodities<sup>22</sup> that must be settled in cash or may be settled in cash at the option of one of the parties (other than by reason of a default or other termination event);
- (6) Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a MTF, or an OTF, except for wholesale energy products traded on an OTF that must be physically settled;
- (7) Options, futures, swaps, forwards<sup>26</sup> and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of this Section and not being for commercial purposes, which have the characteristics of other derivative financial instruments;
- (8) Derivative instruments for the transfer of credit risk;
- (9) Financial contracts for difference;
- (10) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF;
- (11) Emission allowances consisting of any units recognised for compliance with the requirements of Directive 2003/87/EC (Emissions Trading Scheme).

---

<sup>20</sup> New guidance under MiFID II clarifies and amends the distinction between a spot agreement and a forward agreement, overriding national discretion on this point and the FCA's previous interpretation. This clarifies the settlement periods that are considered as spot/forward contracts and also removes the carve out for transactions carried out for a "commercial purpose" as opposed to an investment purpose. This particularly applies to FX forwards and results in most FX forward contracts now being considered MiFID financial instruments.

<sup>21</sup> These references mainly relate to emissions allowances and instruments traded on OTFs, as well as a new carve-out for wholesale energy products which are regulated under REMIT.

<sup>22</sup> The underlying definition of Commodities has also changed under MiFID II, resulting in a wider definition of both commodities and also commodity derivatives. The MiFID II definition does not require that these be goods that can be physically delivered, and now explicitly includes things such as climatic variables, freight rates, inflation rates and other official economic statistics.

**APPENDIX 2 – CLASSES OF FINANCIAL INSTRUMENT AS PER ANNEX I OF RTS 28**

	<b>DIRECT EXECUTION:</b> Firm executes trades in this instrument directly	<b>INDIRECT EXECUTION:</b> Firm transmits orders in this instrument to brokers to execute	<b>NOT APPLICABLE:</b> Firm does not trade in this instrument
<b>(a) Equities – Shares &amp; Depositary Receipts</b>			
(i) Tick size liquidity bands 5 and 6 (from 2000 trades per day)		X	
(ii) Tick size liquidity bands 3 and 4 (from 80 to 1999 trades per day)		X	
(iii) Tick size liquidity band 1 and 2 (from 0 to 79 trades per day)		X	
<b>(b) Debt instruments</b>			
(i) Bonds		X	
(ii) Money markets instruments		X	
<b>(c) Interest rates derivatives</b>			
(i) Futures and options admitted to trading on a trading venue		X	
(ii) Swaps, forwards, and other interest rates derivatives	X		
<b>(d) credit derivatives</b>			
(i) Futures and options admitted to trading on a trading venue		X	
(ii) Other credit derivatives	X		
<b>(e) currency derivatives</b>			
(i) Futures and options admitted to trading on a trading venue		X	
(ii) Swaps, forwards, and other currency derivatives	X		
<b>(f) Structured finance instruments</b>			X
<b>(g) Equity Derivatives</b>			
(i) Options and Futures admitted to trading on a trading venue	X	X	
(ii) Swaps and other equity derivatives	X	X	
<b>(h) Securitized Derivatives</b>			
(i) Warrants and Certificate Derivatives	X	X	
(ii) Other securitized derivatives			X
<b>(i) Commodities derivatives and emission allowances Derivatives</b>			
(i) Options and Futures admitted to trading on a trading venue	X	X	
(ii) Other commodities derivatives and emission allowances derivatives	X	X	
<b>(j) Contracts for difference</b>	X	X	

(k) Exchange traded products (Exchange traded funds, exchange traded notes and exchange traded commodities)		X	
(l) Emission allowances		X	
(m) Other MiFID II instruments:			
(i) Specify (e.g. units in unlisted investment funds)			X
(n) Other instruments outside the scope of MiFID II:			
(i) Specify (e.g. real estate)			X

Contact us

InvestorRelations@cityfinancial.co.uk  
**cityfinancial.co.uk**

City Financial Investment Company Limited  
62 Queen Street  
London EC4R 1EB  
United Kingdom

City Financial Investment Company - CFIC (US) Inc.  
444 Madison Avenue  
New York, NY 10022  
United States

City Financial Investment Company (Hong Kong) Limited  
16/F, 8 Queen's Road Central  
Hong Kong