ALKEN

BEST EXECUTION & ORDER HANDLING EXECUTION POLICY AND PROCEDURE

Fixed income strategy

Alken Asset Management Ltd

Effective Date: January 2023

Revision History

The Best Execution Policy is reviewed at least annually as well as if a material change occurs and which would affect the ability to continue to obtain the best possible result for the execution of orders on a consistent basis (e.g.: changes to top five brokers; changes to instruments in scope of this Policy and changes to the importance of the execution factors). The Policy was last reviewed in January 2023 in order to be aligned with MiFID II.

Regulatory Requirements

This document explains Alken Asset Management Ltd (« Alken » or « the Firm ») best execution policy and is drafted in accordance with the regulatory requirements set out in the Markets in Financial Instruments Directive 2014/65/EU and related secondary and implementing legislation, including without limitation the MiFID II Delegated Regulation 2017/565 (“MiFID II”), Chapter 11 of the Financial Conduct Authority’s (“FCA”) Conduct of Business Sourcebook (“COBS 11”) and the FCA’s Principles for Business (“PRIN”). All terms used by this policy are defined in accordance with the FCA Handbook and COBS 11.

Aside from the specific rules, Alken always endeavours to act honestly, fairly and professionally in accordance with the best interest of its clients.

Relevant FCA rules	COBS 11.2
Relevant MiFID II provisions	MiFID II: Recitals 91-98, Article 27, Delegated Regulations Articles 64-66, Regulatory Technical Standards 27, 28 (ESMA)
Summary of rules	Alken is required to take all sufficient steps to obtain the best possible result for its clients when it executes, places or transmits orders on their behalf, taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order (referred to as the ‘execution factors’). Alken is required to establish an Order Execution Policy for each class of financial instrument traded and to obtain client consent to this policy.

1. Overview

Scope

This document describes the policy and procedures adopted by Alken in order to ensure it meets its regulatory obligations regarding best execution. Best execution is owed to Professional clients only, both elective and non-elective. Alken only treats with professional clients.
The policy describes how Alken seeks to achieve best execution for its clients and includes the following information:

- The Firm's approach to best execution and order handling process
- The critical factors that affect the approach to client order execution and the relative importance that the Firm gives to these execution factors
- The Firm's approach to monitoring its execution arrangements

One should also note when reading this Policy, the complexity of reporting best execution: for markets rich in data, the evidence for best execution will be easy to gather. Instead, for markets where less data is available – which is often the case with fixed income markets – the evidence is more difficult to acquire. We will explain this further in the below Policy.

Activities
Alken owes a duty to obtain the best execution result for its clients and therefore the policy applies to the following scenarios:

- when Alken Asset Management Ltd provides the service of portfolio management and executes or places orders with third parties for execution that results from Alken's decision to deal in financial instruments on behalf of its clients; or
- when Alken Finance LLP receives an order and transmits it to another entity for execution.

Where a duty of best execution is owed Alken will take all sufficient steps to obtain the best possible result for its clients, taking into account the execution factors set out below.

2. The trader's decision tree

Execution factors
When taking all sufficient steps to obtain the best possible execution results for its clients, Alken applies different execution methodologies depending on the situation: from the portfolio managers' instructions, to the different market trends, liquidity of the instruments at stake or volumes involved. The overall driver for Alken is to obtain the best possible result for the client on a consistent basis. We believe that a simplistic price-driven approach to best execution will not give a real understanding of how well a trade was executed. More precisely, it is often stated that fixed income markets are less liquid than equities. The challenging task therefore when dealing with those instruments arises when dealing with a not so liquid instrument which is deprived of a continuous pricing. This policy will endeavour to explain the advantages of taking a nuanced approach to best execution and differentiate the equity trading strategy from the fixed income one. Bonds are indeed invested in for different reasons and traded in different ways than equities.

In short, the trader's optimal execution will reflect different factors: the intention of the PMs, the market circumstances, the limits of the investment mandates, the instrument's characteristics and the best execution policy itself. As said before, the absence of data can arise in the fixed income universe and will render best execution difficult to frame. More precisely, the following range of factors might be taken into account by the trader, where possible:

- Price;
- Cost or commissions of execution;
- Timing and speed of execution (e.g.: when is the optimal time to execute the order);

The level of time sensitivity is a factor. For instance, for large-in-size liquid orders, the trader may prefer to trade off-platform and instead ask multiple counterparties for a two-way quote, or a liquidity tree, before revealing the size and direction of the trade.

- The current liquidity for the relevant instrument;

For instance, illiquid bonds that must be bought or sold quickly will likely need a direct connection to a counterparty. This may be done via a non-competitive trade in which only one broker is approached and the whole order traded through a voice/ RFQ (for instance: when the trader approaches the counterparty which sent him the most relevant quote on a passively manner), or by approaching a small selection of counterparties. On the opposite, if time sensitivity is less of an issue, the trader may prioritise anonymity when trading to minimise information leakage.

- The size and nature of the order; likelihood of execution, clearance and settlement;

In effect, large orders are going to be harder to fill. The reason behind is that very large buy or sell orders placed directly on the market can be expected to move the price. If the price moves significantly against the trader hallway through filling an order, that would negatively impact execution. Therefore, the trader may want to minimise this market impact by masking the order in several way. Working up the size of a smaller trade, with a single counterparty, allows the trader the fill the order without revealing it to the market in its entirety. Further, trading on an anonymous platform with negotiated size can also help. Finally, if an opportunity arises to fill the whole order at once (e.g.: on a block trading platform), this may be prioritised over waiting to try and find a better price and running the risk of not filling the order.

- Expected market impact of the transaction and minimizing information linkage;

For instance, where only one broker is approached, can be used to minimise information leakage. Whilst brokers are not in competition for such a trade, this can still represent best execution if the potential market impact of information leakage is high.

- Execution capability (which may depend on the market conditions; the size of the order; the stock liquidity; the stock volatility and the geographic area);

In other words, if market circumstances make meeting PM instructions very challenging (e.g. a price cannot be reached, or a specific bond cannot be bought/sold), then the trading desk may provide feedback on the investment decision to the PM, who may wish to alter their instructions.

- Financial status and responsibility of the counterparty;
- Responsiveness of the broker or venue;

The long-term reliability of a counterparty is assessed by the trader through both qualitative and quantitative means, depending on the frequency with which they interact and the leverage their relationship may carry.

- The quality and efficiency of the settlement process post execution;
- Other appropriate factors such as the broker's willingness to commit capital and the availability of external venues for the order or a particular product.

As highlighted before, if price is a key aspect of a trade, best execution cannot look at price alone. Furthermore, price information based on historical trades is sparse in illiquid markets. If some data providers for instance build up prices using non-trading data – such as quotes, or information scraped from trading messages – we believe that it does not always reflect actually market activity or achievable execution levels.

When determining the relative importance of the execution factors outlined above, the Firm will endeavour to do so by taking into account:

- the client it is acting for (including its categorization);
- the characteristics of the order, including where the order involves a Securities Financing Transaction;
- the financial instruments involved; and
- the execution venues to which that order could be directed.

In other words, the role of the buyside trader is to execute the trade at the best prices possible within the constraints of the instructions set by the PMs. In addition, the timeline of a trade can very significantly. For instance, orders may be filled within a day or worked over several weeks. This can lead to different market conditions during parts of the execution process, as well as again to changes in the trade instructions from the PM during execution, in order to better reflect investment priorities. In other words, execution is to be understood together with the investment process.

The table below gives some examples of trades and what the priorities might look like:

PURPOSE OF THE TRADE	PRIORITIES TO MANAGE IN EXECUTION
Exiting a position in high yield credit	Speed/ information leakage
Rebalancing passive fund	Price/ speed
Building a large position in investment grade corporate bonds	Size/ market impact
Reducing a position in emerging market rates	Size/ information leakage

Nevertheless, if the Firm was to give a prioritization between the different aforementioned factors, Alken will reiterate the peculiar situation that applies to the fixed income markets. When dealing in illiquid markets, the highest priority for our fixed income trader will be the likelihood of execution over achieving a specific price. One should note that price discovery in illiquid markets is a very challenging task. One the contrary, if dealing in very liquid markets, the price might often be the factor being given the highest priority.

3. Key points to note in respect of Alken's best execution policy and procedures

3.1 Instruments traded

This policy covers the global fixed income instruments traded by Alken:

- Bonds (Government or Corporate that can be convertible or not)
- Preferred Securities
- Certificate of deposits
- Their derivatives (CDS, SWAPS, Bond Futures – including options)

3.2 Nature of funds and investment strategy

It is noteworthy to bear in mind that Alken is vested in names that are not being on the radar of everyone else (i.e.: poorly covered by sell-side for example). More precisely, Alken's investment strategy involves some concentration and a commitment approach to investing. As such, notwithstanding that Alken mainly trades in illiquid markets. Therefore, although Alken has got all the available tools and has an open-minded approach considering the factors listed above, the emphasis will most often be on qualitative factors, the minimisation of market impact and the minimisation of the potential for "tipping the market".

The below examples illustrate the difficulties that can be encountered by the fixed income trader when endeavouring to achieve best execution:

- Where markets are illiquid, there will not be sufficient data to determine a market price, against which the traded price can be compared;
- Illiquidity tends to affect a broader swathe of fixed income markets than it does to equity markets. For instance: two bonds issues at different times by the same company are not generally fungible. Furthermore, the characteristics of two different fixed income instruments can vary widely.
- Most fixed income instruments are not readily tradeable on an exchange, which would provide a central point for publishing trade data, reducing the data available for an analysis.
- The absence of exchanges increases the reliance on bilateral trading between broker-dealers and asset managers.
- Where limited data is available, as is often the case in many fixed income markets, benchmarking the price at these points in time is likely to reflect gaps in data as much as actually price movement, making the report largely meaningless.

- Additionally, the time gap between the arrival price and the execution price may be quite significant, and as a result, while the transaction cost analysis may show a significant slippage and give an impression of poor execution while not taking into account all relevant factors.
- If in highly liquid markets capital gains is the principal source of asset value, it is less practical and less relevant where data is sparse and capital gains is not the primary objective.

4. Procedure

4.1 Approved brokers
The Firm maintains a panel of approved brokers/**venues** to whom its traders can direct orders. This panel is maintained and reviewed by the Firm's Best Execution and Broker Review Committee, which meets on a semi-annual basis to consider matters relating to Best Execution (see below for more detail).

The Firm's traders can only direct orders to venues/brokers on the Firm's approved broker list. Any request to use a venue/broker from outside the Firm's approved broker list must be approved by Compliance and by the Firm's head trader. Such requests are expected to be made very infrequently and must be supported by a clear rationale setting out why the proposed venue/broker is likely to provide better execution than comparable venues/brokers from the Firm's approved broker panel.

The Firm's current panel of approved venues/brokers is attached to this Policy at Appendix A.

4.2 From investment decisions to the execution by the traders
Investment decisions are made by Alken's portfolio managers, on the basis of research, analysis and consideration of the objectives of each fund the Firm manages. Once the PM share their investment intentions to the trader, this triggers an oral discussion where the trader discusses the strategy of the execution (e.g.: liquidity/ timeline etc). The traders then undertake the set up and the volumes.

4.3 Selection of venue/broker – relevant execution factors

Selection of trading and execution venues

Under MiFID II, the term "trading venue" is used to describe:

- A Regulated Market (RM)
- Equivalent third-country markets
- A Multilateral Trading Facility (MTF)
- An Organised Trading Facility (OTF)
- Equivalent third-country facilities/ platforms

Under MiFID II, the term "execution venue" is used to describe:
- Systematic Internalisers;
- Multilateral Trading Facilities (MTFs – such as TradeWeb or Bloomberg);
- Organized Trading Facilities (OTFs);
- Regulated Markets;
- Counterparties acting as liquidity providers or market makers (including affiliates dealing as principal)
- An entity that performs a similar function in a non-EEA country to functions performed by any of the foregoing

The selection of the venue/broker to whom an order will be passed is made by the relevant trader(s) on a case by case basis, having regard to factors described above, the trader's own knowledge and the experience of the Firm's approved broker panel. Alken will not unfairly discriminate between brokers but will make a decision based on a careful consideration of the different factors and any other qualitative factors that may come up in the decision. More precisely, the Firm's traders will have regard to each of the execution factors listed above determining their relative importance depending on the following circumstances:

- The investment objectives for the strategy;
- The type of product to be traded;
- The rational for the trade (e.g.: cash flow; change of PM's view);
- The number of securities involved;
- The percentage of average daily volume that the trade represents (which is difficult to know in the fixed income markets);
- The available liquidity in a security at the time (e.g.: it may prove difficult to source the relevant liquidity and to find the other side of a trade – sometimes driving traders to go slightly outside the spread in order to access meaningful liquidity);
- Willingness to execute difficult transactions (as per the above: it will depend on the trader's willingness to commit capital to facilitate execution on risk trading);
- Block trading capabilities (it will depend on the trader's ability to facilitate blocks, usually for anything above 2 million);
- Anonymity of the trading (as per the above: it will depend on the way the trader manages the block trading process while still minimizing information leakage); and
- Any other appropriate considerations.

Selection of brokers

In our case and being involved with fixed income-related transactions, the selection of brokers depends on the below considerations:

- The nature of the transaction and the type of product
- The size of the transaction;
- The counterparty risk;
- Settlement capabilities.

In addition, Alken will consider the following:

- Historic performance: the broker's average execution quality relative to a relevant trading benchmark (its proven added value on the name);
- The competitiveness of commission rates or spreads;
- The promptness of execution;
- The clearance and settlement capabilities;
- The quality of service;
- The willingness to commit capital;
- The creditworthiness;
- The reputation and financial strength (how is the broker publicly perceived and the broker's credit worthiness).

5. Governance and oversight

5.1 Best Execution and Broker Review Committee

Alken has established a Best Execution and Broker Review Committee which meets on a semi-annual basis to assess whether the Firm's panel of execution venues/brokers continues to provide the best possible result for the Firm's clients. As part of this review, the Firm takes into consideration the annually published execution data made available by trading venue operators and other investment firms; qualitative factors such as the promptness of response and overall levels of services as well as quantitative factors such as trade and market data. The Best Execution Committee - comprised of the trading team, the operations team and the compliance team - approves all execution venues (and their terms of engagement). Execution venues may only be added to the list with the consent of the Best Execution Committee and they will consider factors including but not limited to: credit and counterparty risk; the level of service; and markets covered during their due diligence process and ongoing review.

5.2 Compliance monitoring

Compliance conducts a periodic monitoring of the Firm's adherence to this policy and its resultant achievement of best execution. For this it uses the Bloomberg Transaction Cost Analysis (BTCA) tool which produces daily alerts based on thresholds that were built looking at the Firm's trading activity, level of risk and legal requirements.

The scope of this monitoring will be further documented in the Compliance Monitoring programme and will typically involve a risk-based review of a sample of trades executed in the relevant period. In conducting this review, compliance will seek to confirm that:

- The venue/broker selected for the trade was within the Firm's approved panel;
- The rationale for the selection of the specific venue/broker was appropriately documented;
- Where review of transaction cost analysis information or other data indicated a potential deviation from best execution

Furthermore, all brokers undergo negative media and sanctions screening. The Compliance Team at Alken together with the trader may determine appropriate steps to manage any potential risks – including the possible removal from the approved list and the termination of the trading strategy.

The results of the overall compliance monitoring of best execution will be considered by the Firm's Best Execution and Broker Review Committee as part of their ongoing oversight of the Firm's approach to best execution.

5.3 Policy review

Alken continually (and formally at least annually) reviews the effectiveness of this policy and its execution arrangements to identify and, where appropriate, incorporate any changes to enhance the quality of execution obtained.

5.4 Prohibited practices

With regards to the selection of brokers, the following are being prohibited:

- Trades may not be directed in return for error corrections by a broker;
- Trades may not be directed in return for suggested preferential treatment in security offerings or placements;
- Trades may not be directed if any conflict of interests which can't be mitigated;
- Trades many not be directed in return for gifts and/or entertainment;
- Receipt of third-party payments or benefits in relation to MiFID II inducement rule;

- Trades may not be directed in return or recognition for client referrals.

6. Client communication and consent

Alken provides all its clients with a copy of its Best Execution Policy. Alken shall notify its clients of any material changes to this policy. A change is material where it would affect the best execution parameters, and/or its disclosure is necessary to enable clients to make a properly informed decision about whether to continue utilising the services of the Firm.