



# Castlefield Order Execution Policy (OEP)

November 2018



Castlefield is a trading name of Castlefield Investment Partners LLP (CIP) and is a registered trade mark and the property of Castlefield Partners Limited. CIP is authorised and regulated by the Financial Conduct Authority (FCA) and is a member of the London Stock Exchange. CIP is registered in England and Wales under company number OC302833. Registered office: 8th Floor, 111 Piccadilly, Manchester, M1 2HY.

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## **1. Introduction**

Castlefield is a trading name of Castlefield Investment Partners LLP (CIP) and a registered trade mark and the property of Castlefield Partners Limited. CIP is authorised and regulated by the Financial Conduct Authority and is a member of the London Stock Exchange.

Castlefield undertakes discretionary portfolio management for a range of clients, with a mixture of strategies and its permissions enable it to advise on investments (except on Pension Transfers and Pension Opt-outs), arrange deals in investments, arrange safeguarding and administration of assets, deal in investments as agent, make arrangements with a view to transactions in investments and manage investments.

As a discretionary portfolio manager, Castlefield makes the decisions to deal and subsequently either transmits or executes these orders on behalf of its clients. Castlefield trades solely in the capacity of Agent and does not undertake any transactions as Principal.

## **2. Scope**

Castlefield is an investment firm and as a result of the above permissions and activities undertaken, it falls under the Markets in Financial Instruments Directive that came in to effect on 1<sup>st</sup> of November 2007 (MiFID I) and that were updated and expanded upon under the Markets in Financial Instruments Directive 2014/65/EU (MiFID II) which came into force on the 3<sup>rd</sup> January 2018. Castlefield acts exclusively on behalf of clients defined as either Retail or Professional clients and is therefore required to ensure that all sufficient steps are taken to deliver the best possible result when executing orders on behalf of clients. This is done with reference to the various execution factors that are either particular to, or most relevant for the asset class being transacted. The 'Best Execution' requirements are set out in the FCA Handbook under COBS 11.2A.

When providing the service of portfolio management, Castlefield will always act in the best interests of its clients when placing orders with other entities for execution. Those orders result from the decisions by Castlefield Investment Managers to deal in financial instruments on behalf of its clients.

Best execution relates to all types of financial instruments. The best execution obligation will be applied in a manner that takes into account the different circumstances associated with the execution of orders related to particular types of financial instruments. Best execution will apply to each client order executed.

Castlefield is active in the following asset classes to which this Best Execution Policy applies:

- Equities
- Exchange traded funds
- Fixed Income instruments
- Collective investment schemes
- Money market instruments
- Unlisted securities
- Structured Products

## **3. Purpose**

As required by the FCA regulations, Castlefield has developed this Order Execution Policy (OEP) setting out the arrangements it has made to comply with the best execution obligation. Castlefield acts solely on behalf of Retail and Professional clients and does trade as principal on its own account.

### **3.1 Obligation**

All Castlefield employees with the authority and/or responsibility to place orders must ensure that, in placing orders, they always act in the best interests of each client. This is to be done by following the approach set out in this policy unless it is possible to demonstrate that a better outcome for that client in that transaction can be achieved by an alternative approach. In the event of employing such an alternative approach, the individual must record and report the circumstances to Compliance, who will consider whether amendments to this policy are required.

Castlefield will be involved in the transmission or execution of transactions in all types of financial instrument, according to the trading strategies followed. When determining the approach to achieving best execution, dealers must decide whether they will execute the order or whether the transaction will be transmitted to an executing broker. This is the initial step in ensuring that best execution is provided. Where Castlefield execute the order, it is directly responsible for delivering Best Execution. When a decision is taken to transmit an order on to another entity for them to execute on an agency basis, Castlefield have an obligation to ensure that the other party delivers best execution. The policy of Castlefield is to be treated as a Professional Client in these instances rather than an Eligible counterparty.

### **3.2 Prohibited Practices**

Castlefield does not engage in directing trades to particular venues or brokers in exchange for;

- Access to research, software or other intellectual property;
- Preferential treatment in placing's, IPO's or similar capital markets events;
- Gifts or entertainment;
- Payments or preferential commission agreements in exchange for providing liquidity or order flow.

## **4. Client Consent**

European regulations require Castlefield to obtain the consent of each client to the execution policy. Additionally, before we are permitted by the regulations to execute transactions on behalf of clients outside a regulated market or a Multi-lateral Trading Facility (MTF), we must receive from them their prior express consent. Unless the client advises Castlefield to the contrary, Castlefield will deem that consent to have been provided following receipt of a signed Client Information Form or equivalent binding document, which shows the client agreement to Castlefield's TOB.

### **4.1 Changes to this OEP**

In the event that Castlefield amend this OEP in such a way as to bring about a material change, it is the responsibility of Compliance to ensure that clients are notified of that change. A material change is one where its disclosure is necessary to enable clients to make a properly informed decision about whether to continue utilising Castlefield's services. Immaterial changes will not be the subject of a notification.

### **4.2 Client instructions**

In the event that specific instructions are received from a client in respect of the execution of a transaction, Castlefield is deemed to have complied with its best execution obligations by

following those specific instructions. Where the instruction covers only part of the order then Castlefield will apply its Best Execution Policy to those aspects of the order not covered by the specific instructions.

## **5. Best Execution**

Whilst all transactions handled by Castlefield are by their nature unique in terms of the characteristics and timing of the order, Castlefield will take all sufficient steps to obtain best execution by considering the following execution factors and then proceeding accordingly. The decision is taken with reference to the 'Execution Factors' and the 'Execution Criteria' that are most relevant to that asset class or subset of instruments within an asset class that deliver the best overall outcome or Best Execution for that order.

### **5.1 Execution Factors**

The execution factors are the issues that must be considered when undertaking to deliver best execution. They constitute the differing considerations that can be given precedence in the trading process, dependent on the individual situation. This OEP aims to set out the process for determining the relative importance of each of the execution factors in relation to each trade. The factors to be considered are:

- Price
- Brokers relevant expertise related to specific instruments traded
- Speed of execution
- Transaction costs, including fees and commissions
- Likelihood of execution and settlement
- Size of the order
- Nature of the order
- Market impact; and
- Other considerations relevant to the order.

The relative importance to the client of each of the above will help to establish best execution. The weighting of these different factors may vary on a case-by-case basis but the overriding objective is to deliver the best outcome to the client, being the best Total Consideration. Although other execution factors may, in certain circumstances, be more important than price in obtaining best execution on a client by client basis, it is generally assumed that the price will be the first priority when arriving at the best Total Consideration. A detailed review of the considerations influencing the above Execution factors is detailed in **Appendix C**.

### **5.2 Execution Criteria**

When executing a client order, the following criteria must be taken into account to determine the relative importance of each execution factor:

- The characteristics of the client
- The characteristics of the client order
- The characteristics of the financial instrument that are the subject of that order; and
- The characteristics of the execution venues to which that order can be directed.

Through the careful application of these execution criteria, in each instance the priority of each execution factor will be determined. This is set out in further detail for the asset classes in which Castlefield is active further on in this section.

### **5.3 Use of broker or Executing Directly**

A key aspect of delivering the best possible result to the client and therefore integral to the OEP is how the decision is taken as to whether to use a broker or execute directly with the market. There is also another consideration within each of these two options as it is likely that there will be more than one suitable broker/venue. The full cost and commission implications of each method where there are competing options must be considered. Castlefield's internal commission structure will not favour one avenue at the expense of another, the charges for commission will reflect those charges incurred by the firm.

### **5.4 Selecting which venue or broker**

For each of the instruments listed in the appendices, once the decision to deal has been taken, the choice must first be made as to whether to use a broker or to execute the transaction directly via a venue. If the former is taken, a broker is selected, or, in the case of the latter option being taken, a venue chosen. This decision will be unique to the instrument and will be based upon the relative importance of the execution factors and execution criteria.

Under MiFID the generic term "execution venue" is used to describe:

- Systematic Internalisers (SI's - principal traders and market makers);
- Multilateral Trading Facilities (MTFs);
- Regulated Markets; or
- Other liquidity providers

CIP is not a Systematic Internaliser and does not have plans to become one. Venue selection will therefore consist of choosing from the other venues (potentially including other firms that have defined themselves as SI's) above based on the characteristics of the order at the time.

The circumstances of the transaction will determine the priority given to these execution factors. In considering that priority, the characteristics of the financial instrument, the market in question and the circumstances of the order, including any other criteria must be taken into account. Generally we will treat price as the highest priority with costs as the next factor to differentiate between markets and/or brokers. However, where we consider that there is any reduction in the likelihood of successful execution or settlement through a particular broker or venue, we will avoid trading through such an entity. Furthermore, in circumstances where price movement is rapid and any delay considered likely to be disadvantageous to the client, we will treat speed as the priority factor, over and above considerations of price and cost.

In determining whether to place an order through a broker, we will apply the execution factors as follows: our priority will be the likelihood of successful execution and settlement, followed by price and cost. Consequently our use of brokers is intended to enhance the overall quality of execution in terms of all these factors; in the event that the same transaction can be effected on similar terms without the payment of brokers' commission, our policy is to avoid the appointment of a broker for that transaction.

### **5.5 Equities and Exchange traded funds**

For equities and exchange traded funds, liquidity will be a primary determinant of whether to execute the deal directly or route to a broker. Castlefield is not affiliated with any brokers or trading venues therefore is not precluded from or incentivised to complete transactions on behalf of clients in any predetermined manner. For larger, more liquid instruments, price achieved is most likely to be the determining factor for whether Best Execution has been

achieved and the likelihood is that the order will be executed directly by Castlefield. For smaller entities or where the deal size is greater than the normal market size, the ability to complete the order or the potential for market impact to affect the outcome for the client may have a greater influence than the external cost of completing the order and a broker may be more likely to be used.

Where speed of completing the transaction has been given a greater priority by the client or manager, Castlefield can consider trading with a broker using a “risk price”. This is where the market-maker or broker uses in whole or part their own risk capital to facilitate the trade. In these instances, the weight placed on the completion of the order and the timeframe within which that is achieved can outweigh the considerations of the discount or premium to a quoted price in that instrument.

Castlefield generally transacts in London-listed equities and the settlement takes place in CREST. Potential risks to the settlement of a trade would tend to direct Castlefield away from venues and counterparties where it was felt that there was an undue risk of settlement failing to take place. Castlefield looks to complete the majority of its equity trading within the rules of the London Stock Exchange and failure to settle transactions is a relatively low risk for our trading activity.

Castlefield does from time to time participate in primary issuance of equity from companies coming to market including Initial Public Offerings (IPO’s) as well as subsequent rounds of secondary issuance including rights issues and other corporate actions. For IPO’s and book builds, orders will be placed with the broker leading the offer, which may be subject to scale back. Where that occurs, Castlefield’s Fair Allocation Policy applies if dealing on behalf of a number of underlying client accounts rather than a single mandate. Subsequent deals in the market once the offer has completed in order to achieve a fill on the original order may be undertaken. Subsequent price movements after listing and available liquidity of the stock may determine whether this is pursued and if so, whether Castlefield executes directly or uses a broker.

## **5.6 Fixed Income**

Castlefield transacts in both government-issued gilts as well as liquid corporate bonds both of which are traded on exchange. Castlefield may also deal in less liquid OTC bonds where price discovery and subsequent trade transparency is below that of exchange traded instruments. In each case, Castlefield aims to secure the best overall result for the client and the liquidity segment that the group predominantly trades in means that price is most likely to be the principle determining factor of Best Execution. We are also in contact with sales personnel at counterparties who periodically indicate flow in instruments where, if they match a client order, it can be an efficient means to block-fill some or all of, an order.

Similarly to the situation with equity trading, we are from time to time in contact with brokers representing companies wishing to issue new debt or refinance existing debt via the issuance of bonds. Where we elect to participate on behalf of clients in such an exercise, the order will be reflected to the lead broker. Such debt-raising exercises are more commonly satisfied by a book-build process subject to early close, reducing the risk of a scale-back if such a raising encounters high demand. Where a scale back on the order is implemented by the issuing entity in conjunction with the lead book-runner then the order will be allocated to underlying clients in conjunction with our Fair Allocation Policy.

## **5.7 Collective Investment Schemes**

Castlefield makes use of various collective investment schemes on behalf of clients. There is ordinarily only one venue and counterparty to such trading, being the manager of the respective schemes. Where forward pricing policies are used for such schemes, the price achieved will be set after the trade has been completed and is not a primary consideration for the trading activity. Castlefield will look to use electronic systems where possible to route orders to the respective scheme managers and as funds typically price once daily, then timing of these order and efficient order routing will be a primary consideration when dealing for clients.

## **5.8 Structured Products**

The use of structured products will usually involve transacting OTC with a counterparty as there is no central exchange for these instruments. The majority of products when purchased will be sourced via primary issuance and the use of a broker will be instrumental in obtaining best value from potential issuers. As the products may be relatively different in strategy or have alternative underlying reference metrics from other notes already in issue, a competitive tender process conducted by brokers to obtain the best yield/pay-off for any given structure from a range of potential issuers will be the clearest way to obtain best execution. Subsequent purchases or exits of products in the secondary market other than at the defined redemption date of the note can be conducted with either a matched buyer or seller sourced via a broker which may be the most cost-effective means of effecting a trade after the point of issuance. Alternatively, an exit by unwinding the note with the issuer or a purchase by taking further inventory from them, if still available, can be a useful source of further liquidity and Castlefield will compare these implicit and explicit costs of subsequent trading in the secondary market with an approach directly to the issuer. Castlefield will always try and obtain products that have as a minimum a technical listing on an EU exchange or MTF after they have been issued in order to assist in subsequent price discovery after the point of acquiring them.

## **6. Monitoring arrangements and policy**

Castlefield undertakes periodic compliance monitoring to determine whether transactions have been conducted in accordance with the policy. Copies of transaction reports submitted to the FCA on behalf of Castlefield are also obtained periodically (from the FCA), in order to ensure appropriate transaction reports are being submitted.

### **6.1 Review of execution arrangements and policy**

To ensure that this OEP remains appropriate and in line with the requirements, this Policy will be reviewed at least annually. A review will also take place in the event of any change of circumstances which may affect Castlefield's ability to achieve best execution. This will include a review of available execution venues to confirm that the venues continue to be appropriate for consideration in achieving best overall results on execution of orders. All Annual or Periodic reviews will involve Compliance, Trading and Portfolio Management personnel.

The dates and details of any changes to the best execution policy, execution venues or brokers will be documented by Compliance.

### **6.2 Evidence of Best Execution**

FCA regulations require Castlefield to demonstrate to clients, at their request, that transactions have been executed in accordance with this OEP. Castlefield primarily uses specialist external



brokers to execute client orders and where these are used, Transaction cost analysis is utilised. TCA reports are checked by the individual managers responsible for client orders and are jointly reviewed by the investment management team at quarterly Investment Committee meetings. Such meetings are also attended by the dealing staff and Compliance personnel with minutes recorded.

For orders where Castlefield executes the deal directly with the market, prevailing market conditions are recorded with reference to the execution factors noted above for the relevant markets in which the instrument is listed and we have access. For less liquid instruments and larger deals, market depth is recorded with reference to the prevailing liquidity in those instruments at the time. Castlefield compliance personnel monitor trading activity using a combination of sampled analysis and exception reporting.

### **6.3 Allocation of part fulfilled transactions**

For an order that is part filled, i.e. where we/the broker have only managed to trade part of the original quantity intended, we will either:

- a) “Ware-house” the stock with the executing broker to be then booked out the following day when the order has hopefully been filled;
- b) Pro-rata the trade amongst the clients participating in the order (assuming there is more than one client as part of the order). If there are any staff PA accounts we may exclude these from the pro-rata calculations and deal separately on a subsequent occasion.

A detailed process governing allocation under these circumstances is outlined in the **Castlefield Fair Allocation Policy**.

## **Glossary**

### **Direct market Access (DMA)**

Direct market access tools permit buy-side traders to access liquidity pools and multiple execution venues directly, without intervention from a broker’s trading desk.

### **Execution Venue**

An execution venue means a Regulated Market, Multi-lateral Trading Facility, a systematic internaliser, or a market or other liquidity provider, or an entity that performs a similar function in a non-EEA country to the functions performed by any of the foregoing.

### **Multi-lateral Trading Facility**

A Multilateral Trading Facility is a system that brings together multiple parties that are interested in buying and selling financial instruments and enables them to do so. These systems can be crossing networks or matching engines that are operated by an investment firm or a market operator. Instruments may include shares, bonds and derivatives. This is done within the MTF operator’s system. The MTF operator is required to allow the interests of the buyers and sellers to interact, so that trades come about without unfairly intervening in the interaction of the interests. The description of MTF excludes bilateral systems where an investment firm enters into one side of a transaction effected using the system.

**Regulated market**

A multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third party buying and selling interests in financial instruments in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions of Title III of MiFID.

**Systematic Internaliser**

A Systematic internaliser is a firm active on behalf of client as well as potentially its own book of business which attempts to match “buy” and “sell” orders across the deal-flows to which it has direct access, satisfying those orders from other client transactions routed to it or via its own book.

## Appendices

### Appendix A – Venues

The following list of trading venues apply to the following list of asset classes

<b>Equities &amp; Exchange traded funds</b>	<b>Fixed Income</b>	<b>Collective investment Schemes</b>	<b>Structured Products</b>
London Stock Exchange (LSE)	Order Book for Retail Bonds (ORB on LSE)	Managing Firm	OTC
Alternative Investment Market (AIM)	Counterparties OTC		
NEX			
Counterparties OTC			

### Appendix B – Approved Brokers

Castlefield operate a broker approval process as documented in the “Broker Approval Policy”. The current list of approved brokers is as follows:

<b>Broker - Equities</b>	<b>Broker - Fixed Income</b>	<b>Broker - Structured Products</b>
Arden Partners	Canaccord	Tradition Finance (TFS)
Cantor Fitzgerald	Pershing	Barclays Capital
FinnCap		Morgan Stanley
Liberum		
Numis		
Panmure Gordon		
Peel Hunt		
Pershing Securities		
Singer		
WH Ireland		

### Appendix C – Considerations relating to execution factors

#### Considerations relating to broker expertise and illiquid stocks

In the circumstances where the nature of the stock in question presents challenges to successful execution due to obscurity, under-researched markets, illiquidity or small capitalisation, our policy is to engage a broker for such a transaction. In selecting the appropriate broker the priority factor will be their expertise in relation to the stock in question on the grounds that this will result in the best overall execution in terms of achievement of execution and price, albeit that cost – especially the broker’s commission – may not be the most competitive and is de-prioritised.

#### Considerations relating to commission rates

As mentioned earlier in this policy, the cost of transaction may not be the highest priority and in some circumstances will be a lowly rated factor, but where there is a direct choice of broker

with **other factors being equal**, the lower commission rated broker will be employed. By direct extension, where commission can appropriately be avoided altogether without client disadvantages, it is our policy to deal in that way.

### **Considerations relating to large transactions**

Where a transaction is large in comparison to the normal market size for that stock, Castlefield may have the order 'worked' by a market maker using Castlefield's own defined limits. In some circumstances we may choose to use a broker to manage the execution of the transaction, exercising their discretion and expertise. In these circumstances, our priority factors will normally be the broker's ability to complete the transaction successfully and price. Consequently, the costs of the transaction in terms of the broker's commission will be attributed a relatively low priority, reflecting the importance of selection of a broker known to be expert at achieving execution in these circumstances.

### **Considerations relating to speed of transactions**

When the price of the contemplated stock is moving quickly, either as a result of news relating specifically to that company or because of wider market movement, speed of execution will usually be the priority factor. The achievement of speedy execution is either through an appropriate DMA, if available, or a large broker 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.

### **Consideration relating to speed of settlement**

In the comparatively unusual situation that the speed of settlement is of material importance, that factor will be prioritised above costs of transaction and price, although this does not imply that cost and price are irrelevant – merely lower priority. As a means of procuring speedy settlement, it will normally be necessary either to select an execution venue which provides fast settlement terms as standard or to negotiate with a broker for special settlement terms. Usually this latter will result in the selection of a substantial and well capitalised broker capable of providing such a service, notwithstanding that they might not be the most competitive.

### **Considerations relating to geographical location**

In the selection of broker/venue, geographical location will sometimes be a material consideration. Where appropriate, in order to minimise the cost of transaction, it is Castlefield's policy to use a DMA to which it has access. In practical terms this will usually only apply in geographical locations where well developed markets exist. In the circumstances of a stock of some obscurity the use of a broker with known expertise in relation to that stock and wherever geographically it is traded will usually be the preferred means to ensure successful execution and best price but it is recognised that the broker may not be competitive on cost.

In other circumstances, transactions will generally be arranged through a UK based broker where Castlefield has reason to believe that the broker is competent to execute the transaction in question, thus prioritising satisfactory execution, price and cost in that order.

### **Details of brokers and venues**

As set out above, the selection of venue/broker will result from the prioritisation of the execution factors as appropriate for the individual transaction. It is acceptable in some circumstances, as explained above, for price and/or cost not to be the highest factors. However where the decision is taken that other factors have higher priority in the context of

an individual transaction, a record is to be made, as part of the transaction record, of that decision and the rationale for it. Usually price and cost will be the highest priorities, subject of course to the fundamental capacity of that venue/broker to facilitate the transaction.

Appendix A has a list of the execution venues/brokers used at Castlefield.

### **Considerations relating to linked transactions**

Special consideration will be needed where two or more transactions are linked. In these circumstances our priority is to avoid unnecessary exposure by combining the transactions and placing them with a single broker. In doing so, the priorities for the combined transaction will be likelihood of successful combined execution, price for the convertible element, and overall cost. However, for the secondary, equity transaction, price will be a priority and must match on both transactions, and speed is required in order to prevent the risk that price movement might remove the scope for the required matching, but de-prioritising costs, which may not be competitive if looked at in isolation.