

SVM Guidance Note

Order Execution



Issue Date: May 2020

Background

Firms must “take all sufficient steps to obtain, when executing orders, the best possible results for its clients”. This also applies when executing orders for funds.

The obligation to deliver the best possible results when executing client orders applies in relation to all markets and all types of financial instruments. Given the differences between how global markets operate and the structure of different kinds of financial instruments, it is not possible to apply a uniform procedure for best execution that would be valid and effective for all markets and all classes of instrument. Best execution therefore needs to take into account the different circumstances of each individual client order.

Policy

SVM executes all client and fund trades via regulated brokers. A broker approval process is in place and trades can only be instructed to approved brokers. The approved broker list can be found in the appendix. SVM has a dedicated dealer responsible for selecting which broker(s) to submit a trade to. Investment managers must consider the execution factors prior to sending a trade instruction to the dealer and notify the dealer if any factor(s) should take priority. The dealer will also use their discretion as to which execution factors are most important on a trade by trade basis.

Execution Factors

The following factors will be taken into account prior to sending an order to a broker:

- price
- costs
- speed
- likelihood of execution
- likelihood of settlement
- order size and nature
- any other consideration relevant to the execution of the deal

In determining the relevant importance of each of the above factors, we will also consider the objectives, investment policy and risk appetite of the client or fund, the characteristics of the client/fund, the order and the financial instrument, the prevailing market conditions and counterparty risk.

For the majority of trades, price will be the most important execution factor. However, there are circumstances where other factors take priority. For example:

- For smaller capitalised equities and less liquid stocks, the likelihood of execution and the delivery of liquidity may be more important.
- When raising cash to cover fund redemptions, the speed and likelihood of execution may be more important.
- When executing a large order, the ability to transact the whole of the order at a less favourable price may be more important than only executing a part of the order at the best available price at that time.
- In certain market conditions, the level of price volatility may mean that timeliness of trade execution is the priority.
- When executing certain instruments (e.g. OTC derivatives or structured products) the choice of execution venue may be limited.

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Execution venues

As SVM uses third party brokers to execute all client and fund trades it is usually the broker that determines the execution venue. Execution venue selection is driven by the brokers own execution policies, taking into consideration any trading instructions provided by SVM, including which execution factors have priority. Trades for SVM’s clients and funds may be executed on any of the following venues:

- Regulated Markets
- Multilateral Trading Facilities
- Systematic Internalisers
- Third-party investments firms, brokers, market makers and liquidity providers

SVM does not receive any remuneration, discount or non-monetary benefits for routing client orders to a particular trading venue or execution venue.

Trades may also be fully or partially executed outside of a trading venue when a broker matches different clients’ buy and sell orders in-house by acting as a Systematic Internaliser. This creates counterparty risk if the broker is unable to fulfil its obligations. Additional information about trading outside of a trading venue is available on request.

The table below sets out the different classes of financial instrument SVM invests in on behalf of its clients and funds, the venues where trades in that instrument may be executed and the factors affecting the choice of venue.

Instrument	Venue	Factors affecting choice of venue
Equities – shares and depositary receipts	<ul style="list-style-type: none"> • Regulated markets • Multilateral trading facilities • Systematic internalisers • Third-party investments firms, brokers, market makers and liquidity providers 	<ul style="list-style-type: none"> • price • costs • speed • likelihood of execution • likelihood of settlement • order size and nature • other factors
Currency derivatives	<ul style="list-style-type: none"> • Regulated markets • Multilateral trading facilities • Systematic internalisers • Third-party investments firms, brokers, market makers and liquidity providers 	<ul style="list-style-type: none"> • price • costs • speed • likelihood of execution • likelihood of settlement • order size and nature • other factors
Equity derivatives	<ul style="list-style-type: none"> • Regulated markets • Multilateral trading facilities • Systematic internalisers • Third-party investments firms, brokers, market makers and liquidity providers 	<ul style="list-style-type: none"> • price • costs • speed • likelihood of execution • likelihood of settlement • order size and nature • other factors

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Contracts for difference	<ul style="list-style-type: none"> • Regulated markets • Multilateral trading facilities • Systematic internalisers • Third-party investments firms, brokers, market makers and liquidity providers 	<ul style="list-style-type: none"> • price • costs • speed • likelihood of execution • likelihood of settlement • order size and nature • other factors
Exchange traded products	<ul style="list-style-type: none"> • Regulated markets • Multilateral trading facilities • Systematic internalisers • Third-party investments firms, brokers, market makers and liquidity providers 	<ul style="list-style-type: none"> • price • costs • speed • likelihood of execution • likelihood of settlement • order size and nature • other factors

Execution strategies

Brokers executing trades on behalf of SVM’s clients and funds could engage in any of the following strategies:

- Liquidity seeking – lit markets & dark pools
- VWAP (Volume Weighted Average Price)
- TWAP (Time Weighted Average Price)
- Percentage of volume
- Dark only
- Lit only

Agreements with brokers

SVM has a broker approval process in place which must be completed before trading can commence. Brokers also have a responsibility to ensure best execution is achieved. The broker’s terms of business and order execution policy are reviewed to ensure they are compatible with this policy. We also ensure that SVM has been classified as a professional client.

SVM’s approved broker list is reviewed annually.

Agreements with clients

All new segregated clients are provided with a copy of this policy prior to investing. In the event of any material changes occurring, clients will be provided with an updated version of the policy.

All client agreements must include a clause giving their consent for trades to be executed on a venue which is not a regulated market or MTF.

Limit orders

SVM permits brokers to use their discretion on whether to make public any Limit Orders that remain unfilled. We believe that this will be exercised in the best interests of our clients.

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Client order instructions

In the unlikely event that a client gives us a specific instructions relating to buying or selling investments for their portfolio, we will advise the client that, whilst every effort will be made to achieve the best outcome, best execution may not be achieved.

Order handling and aggregation

SVM will ensure that client orders are promptly and accurately recorded and allocated. Trade instructions received by the dealer will be executed in a timely manner and in the order in which they were received. However, market conditions may make this impracticable in which case it may be in the best interests of a client to delay execution.

Subject to FCA Rules and client investment mandates, we may aggregate transactions for multiple clients dealing in the same security in the same direction. Trades will only be aggregated if it is unlikely that any participating client will be disadvantaged.

Order allocation

Where possible, SVM uses block trades and allocates shares on a pro-rata basis by using an average price that ensures fair and equitable allocations. However, applying an average price may result in a fund or client obtaining on some occasions a more favourable transaction price and on others a less favourable transaction price than had the order been executed separately.

Where there is a minimum tradeable size and we have not been able to fulfil the entire order, allocation will be made based on multiples of this amount. Where this is inconsistent with allocating on a pro rata basis, the next most equitable allocation will be applied. This may include allocating a minimum size to each client with the remainder allocated on a pro rata basis.

There may be occasions where it is not practical to allocate on an equitable basis. Details of any alternative allocation criteria used will be recorded in Bloomberg AIM. Alternative criteria include:

- Uneconomical

Stock would not be allocated to a client if it would be uneconomic or prohibitive, from a dealing cost point of view, for the client. An allocation would be regarded as uneconomic or prohibitive if the administrative cost of the transaction was disproportionate to the value of the stock allocated.

- Higher Priority

In certain circumstances, certain clients might be considered to be a higher priority than others. For example, clients with higher cash weightings may have a greater need for a higher allocation of a purchase order. Conversely, clients with heavily overweight positions in a stock may have a greater need for a disproportionate allocation in a sale order.

Initial Public Offerings, Placements and Sub-Underwriting

From time to time SVM participates in Initial Public Offerings, Placements and Sub-Underwriting. Allocation across clients is ultimately driven by the number of shares SVM is allocated by the issuing broker. The shares are then allocated pro rata across participating clients as far as practicable.

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Partial fills

Where orders have been aggregated and only part of the order has been executed by market close, the executed portion of the trade will be allocated pro-rata as far as practicable. If a pro-rata allocation cannot be made, the reason for and basis of the allocation will be recorded in Bloomberg AIM.

Settlement

Once an order has been executed our Administration team receive the trade confirmation and settlement details. Where an order has been aggregated the settlement requirements will match the number of shares allocated to each client.

Records

All trades are recorded in Bloomberg AIM. The record includes the following information:

- Client/fund name
- Security type
- Transaction type
- Number of shares
- Price
- Total value
- Broker
- Commission
- Execution date
- Execution time

Aggregated orders are recorded under the same order number. Records will be retained for at least five years from the trade date.

Compliance monitoring

SVM uses the Bloomberg Transaction Cost Analysis (BTCA) system to monitor execution quality and order allocation of all trading. Any trades that fall outside of the tolerances coded on the system are automatically flagged to compliance to review. A full audit trail of the review is recorded on BTCA. A summary of the review is included in the quarterly compliance report to the board.

Compliance also facilitates an annual review of the approved broker list.

This policy is reviewed at least annually, or whenever a material change occurs.

Reference

- SVM Market Conduct policy
- FCA Handbook Conduct of Business chapter 11.2B - Best execution for UCITS management companies
- FCA Handbook Conduct of Business chapter 11.3 – Client order handling
- FCA Handbook Conduct of Business chapter 11.4 – Client limit orders
- FCA Handbook Conduct of Business chapter 11.5A - Record keeping: client orders and transactions

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Appendix – SVM approved broker list

Arden Partners	Kepler Cheuvreux
Baader Helvea Ltd	Liberum Capital Ltd
Barclays	Liquidnet Europe Ltd
Berenberg Bank	Macquarie
Bernstein	McCall Aitken McKenzie
Canaccord Genuity Ltd	Merrill Lynch
Cantor Fitzgerald	Mirabaud Securities Ltd
Cenkos Securities	MM Warburg & Co
Charles Stanley Securities	N+1 Singer
Citigroup	Northern Trust Securities
Credit Lyonnais	Numis Securities
Davy Group	Oddo & Cie
Deutsche Bank	Olivetree Financial Ltd
DNB ASA	Panmure Gordon
Equita SIM	Pareto Securities AS
Fidante	Peel Hunt
FinnCap	Royal Bank of Canada
Fiske Plc	SGSS
Goldman Sachs	Shore Capital
Goodbody	Sinopac Securities
Haitong Securities (UK) Ltd	Stifel Nicolaus Europe
Handelsbanken	Stockdale Securities
HSBC Bank Plc	UBS Investment Bank
Investec	Whitman Howard
Jefferies International	Winterflood Securities
JP Morgan Securities LLC	