

# Canada Life Asset Management Limited

## Order Execution Policy

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## 1. Introduction and Scope

This Policy explains the arrangements that Canada Life Asset Management Limited (CLAM), CLAM has in place to execute and place orders. It explains the factors, and considerations that CLAM takes into account to achieve best execution for its clients. It is drafted in accordance with the regulatory requirements found in the Financial Conduct Authority (FCA) Handbook, Conduct of Business (COBS) Sourcebook 11.2A.

CLAM has chosen to be classified as a professional client, and all of CLAM's clients are classified as professional clients.

There is an agreement between Canada Life Limited (CLL) and CLAM that CLAM will provide execution only services for CLL. CLAM acts solely on the instruction of CLL decision to invest.

CLAM is required to take all sufficient steps to obtain the best possible result when executing or placing orders and to act honestly, fairly and professionally in accordance with the clients' best interests.

The financial instruments in the policy include but are not limited to:

- Equities
- Fixed income products including listed & unlisted bonds
- Money market instruments
- Derivatives
- Collective Investment Schemes

## 2. Order management

CLAM takes steps to enter and maintain relationships with a range of brokers to ensure there is sufficient choice to achieve best execution on a consistent basis.

CLAM can both place and execute orders depending on the security, as set out in Section 6, 'Execution Factors & Venues', of this Policy:

- Placement is where CLAM places orders with a broker for them to execute in the market
- Execution is where CLAM executes an order directly with an execution venue or counterparty

The order execution arrangements within CLAM differ between the equity and fixed income teams. The equity team has a central dealing team to process and place orders with brokers for execution; in the absence of an equity dealer, the equity fund managers process and place their own orders. For fixed income, a fund manager or a dealer will process and place orders with brokers for execution. The same level of controls is placed on fund managers and dealers to ensure they consistently achieve the best possible results.

Investment orders, excluding private placements and derivatives, are entered into the order management system (OMS). Records of orders are retained within the OMS for 7 years. Private placements and derivatives follow the manual trade process. The business process documentation for the manual trade process as well as the respective dealing processes are reviewed by the front office and operations teams at least annually.

## **2.1 Order handling**

Allocation must be in the interests of each client. The fund manager or dealer may aggregate client orders for execution. By combining client orders CLAM must reasonably believe that it will obtain a more favourable price than if those orders had been executed separately. However, on occasion aggregation may result in obtaining a less favourable price. When deciding how to allocate an aggregated order CLAM will not give unfair preference to any client or group of clients.

Allocation of transactions will be made before the time the order is placed. Allocation price should be the price of the total transaction (incl. fees and commission).

Comparable orders will be carried out promptly and fairly executed, unless the characteristics of the order or prevailing market conditions make this impracticable or the interests of a client requires otherwise.

CLAM has an Order Allocation Standard which ensures orders are promptly and accurately recorded. This Standard is available upon request.

## **3. Costs**

When executing an order, best execution is primarily determined in terms of total consideration. This will include the price of the relevant instrument along with any explicit and implicit costs associated with the execution. Explicit costs include commission, execution venue fees, clearing and settlement fees and any other fees paid to entities involved in the order and implicit cost is the overall market impact of the trade. When considering execution CLAM aims to deal at the best and most cost effective way possible.

## **4. Internal Crossing**

Where an internal cross is appropriate, for example if one fund is purchasing an asset and another fund is selling the same asset, CLAM will use an external broker to facilitate this at a net commission basis or at a minimal cost; for equities, the broker will not incur any cost since they are simply facilitating the transaction. The transaction price will be the mid-point at which the instruction was given to the broker, and any taxes /charges will be paid by the relevant fund.

## **5. Direct Client Orders**

CLAM very rarely, if at all, receives direct orders from clients. However, some Investment Management Agreements do permit clients to instruct on a specific order.

Where a specific instruction is received, this may prevent CLAM from obtaining the best possible result in respect of the elements covered by those instructions.

## 6. Execution Factors & Venues

When taking all sufficient steps to obtain the best execution of orders, the following execution methodology, factors and criteria are taken into consideration. CLAM applies different execution methodologies depending upon the relevant financial instrument. This section describes the criteria and factors that are generally considered, more detail and definitions can be found in the glossary:

Execution factors include:

- Price
- Cost
- Likelihood of execution and settlement
- Size of trade
- Trade idea generation

In determining the relative importance of each factor the following criteria are taken into account.

- Characteristics of the order required or requested by the fund manager
- Characteristics of the financial instrument(s) that are subject of that order; and
- Characteristics of the execution venues where the order can be directed

Subject to any specific instructions that may be given by clients, CLAM shall take into account the characteristics of the client order as well as a range of factors which may affect the order execution or placement.

The interpretation and relevant importance given to each execution factor will differ between financial instruments are shown in Appendix 1. However, as a professional client, it is the view of CLAM that the most important factors of an order are generally a combination of price and likelihood of execution and settlement (liquidity). In exceptional circumstances where price / liquidity cannot be prioritised, a rationale is required and recorded.

Where exceptions to Policy occur, and the broker or venue with the best price is not selected, supported documentation is provided by a rationale note in the OMS, detailing the reasons why a particular quote was chosen and executed outside of normal practices.

## 7. Selection of Execution Venues

When selecting an execution venue, CLAM will endeavour to ensure that the selected venue can provide best execution in relation to the order that will potentially be placed or executed with them.

The venue will provide a source of liquidity for the relevant financial instrument. In some instances, there may only be one execution venue for a specific financial instrument (particularly for private placements and illiquid instruments).

The types of execution venues used by CLAM consist of the following:

- Systematic Internalisers (SI)
- Multilateral Trading Facilities (MTF)
- Organised Trading Facilities (OTF)
- Counterparties acting as liquidity providers or market makers
- Electronic Communication Networks (ECNs)
- Request for Quote (RFQ) platforms.

CLAM will only execute orders with brokers that are approved on the “Authorised broker list”.

### 7.1 Broker On-Boarding

Specific criteria to add a broker to the authorised broker list may vary based on the financial instrument to be executed but the overall approval process is applied in the same manner across all financial instruments.

The criteria to add a new broker is based on the evaluation of a number of qualitative and quantitative factors that may include but not limited to:

- Competitive commission rates
- A proven ability to transact in the chosen asset with access to the necessary venues
- Membership of appropriate exchanges and regulatory bodies
- Acceptable counterparty risk - approved by Heads of Desk and Managing Director & Chief Investment Officer
- Having systems in place to be able to receive orders directly from CLAM in the most robust manner
- Willingness to commit capital
- Reputation in the market and quality of indication of interest
- Financial stability

The broker on-boarding process requires the fund manager and/or dealer to review the proposed brokers Best Execution Policy to ensure it complies with obligations in relation to best execution. This will also be reviewed by the Investment Governance Team, before being signed-off by the relevant Head of Desk and the Managing Director & Chief Investment Officer.

## 7.2 Inducements

CLAM will not select an execution venue on the basis of any inducement. All individuals involved in the investment process are required to adhere to the Gift and Hospitality Standard and Guidelines. Any gift or hospitality from an execution venue must be disclosed in line with Standard and Guidelines and where relevant approved prior to acceptance.

Permitted inducement is covered by the FCA Handbook COBS 2.3A.6

## 8. Execution Risks

The execution risks faced by CLAM include but are not limited to:

- Choosing the wrong venue. Inappropriate venue choice could potentially lead to a more costly execution
- Executing the wrong direction (buy vs sell), size, or at a wrong price on a trade
- Overwhelming the available volume with aggressive trading or leaking critical information to the market
- Failure to instruct the broker precisely with regard to method of trading. For example, timing, limits, venues
- Not setting an appropriate price or volume limit
- Transacting in the wrong stock, sedol or line of a given stock

Risks associated with dealing are reviewed regularly as part of the Risk and Control Self-Assessment process.

## 9. Execution by Asset Class

### 9.1 Equity & Equity Like:

Equity transactions are generally passed through an Electronic Management System (EMS) and placed with brokers electronically. This results in straight-through processing and reduces substantially the risk of human error. Using the EMS provides connectivity to CLAM broker network via fixed messaging, enabling better supervision and auditing of executions.

CLAM use a number of strategies when executing equity trades ranging from:

- Volume Weighted Average Price (VWAP)
- In line
- Limit
- Liquidity
- Request for Quotes (RFQ)
- Switch

An order can be one or a combination of the above execution strategies. The choice of strategy will depend on one or a number of the following factors:

- Investment objective
- Trade rationale
- Relative size of the order
- Liquidity
- Geographic region
- Other appropriate considerations

Specifically, in Asian equity markets, orders will generally, but not exclusively be executed using VWAP as the main strategy. Where the transaction is large when compared to overall daily volume, limitations will be put on the proportion of overall volume in any given stock that CLAM transact in order to minimise market impact. Occasionally price limits will be used when and where appropriate.

Some executions for listed equities may be executed by CLAM directly via MTFs. MTFs will be used when there is an opportunity to match with another market counterparty that has an opposing direction of a trade.

In the case of Exchange Traded Funds, CLAM will use Request for Quote to obtain prices from a number of brokers to select the best market price at the prevailing time of dealing.

CLAM seeks to minimise commission paid by securing the most competitive rates and will negotiate lower rates for large individual deals and program trades.

When the strategy is to find natural flow or asking the broker to commit capital to start an order, CLAM may also be required to pay a higher rate of commission; however, this may achieve a lower range of price movement (slippage).

## 9.2 Equity Derivatives

CLAM has very limited exposure to equity derivatives except when the underlying security is not available and CLAM uses a derivative to gain exposure instead. To achieve best execution CLAM will assess the price relative to the underlying security, counterparty and liquidity.

## 9.3 Fixed Income

Fixed Income orders will generally be executed or placed by CLAM with brokers usually through an electronic trading platform. The Telephone and Electronic Communications Guidelines state that *“it is discouraged for fund managers / dealers to use company desk phones for trading if an electronic option is available... The use of mobile phones for dealing is strictly prohibited”*.

## 9.4 Bonds

MTFs, OTFs and SIs generally provide transparency on bids/offers placed through their systems. MTFs provide opportunity for simultaneous, competitive bids/offers which enable price discovery. These venues are typically preferred; however, they are not appropriate for transactions above a certain size because the exposure of trade data may adversely affect the relevant market and inadvertently compromise the ability to obtain the best result available.

CLAM seeks to obtain a reasonable number of competitive quotes through trading screens to ensure that the best price is obtained. A review of up to date information in the market on spreads and government bond prices determine the depth of liquidity and gauge indication of interest. A minimum of two venues are normally selected however, that is not always possible or desirable. In certain less liquid markets, attempting to obtain multiple quotes could have a negative impact on obtaining best execution. Additionally, for certain transactions, there may only be one potential venue and therefore obtaining multiple quotes is not possible.

Price and likelihood of execution (liquidity) will normally be the most significant execution factors. However, size, speed of execution or the lack of venues offering the relevant instrument may mean investigation into price is not as varied as it might be in other circumstances.

Significant trading venues for CLAM are:

- Bloomberg
- MarketAxess

## 9.5 Money Market Instruments

Money market trading is similar to fixed income bond trading as described above.

Due to the volume in which CLAM typically executes transactions, a single broker may be approached for a trade on the basis of the broker's suitability for that transaction, depending on a particular execution strategy according to factors prevailing at the time of trade.

## **9.6 Derivatives**

CLAM trades OTC derivatives and derivatives as set out in Investment Operating Policies and associated Standards (where relevant).

In achieving best execution, CLAM takes into account similar practice to fixed income bond trading as well as other relevant market circumstances at the time.

When executing orders or taking a decision to deal in OTC products including bespoke products, CLAM shall check the fairness of the price proposed, by gathering market data used in the estimation of the price of such product and, where possible, by comparing with similar or comparable products. To undertake an order in an OTC derivative product, CLAM participates in an International Swaps and Derivatives Association (ISDA) Master Agreement, with the counterparties and clients whose mandates allow for investment in such instruments.

The credit rating for derivative counterparties is reviewed at least annually.

## **9.7 Foreign Exchange (FX)**

CLAM instruct foreign exchange (FX) transactions primarily to hedge our exposure to different currencies.

CLAM exercises its own judgment, skill and experience, having regard to available market information when determining the factors that it needs to take into account for the purpose of providing its clients with best execution.

## **9.8 Collectives Investment Schemes**

CLAM invests in collective investment schemes such as Open Ended Investment Companies (OEICs). These differ from the previous mentioned asset classes, as the price will be determined by the fund administrators.

Orders are placed in an Execution Management System, where the key execution factor is the timing of the execution, in order to meet the required valuation point. Our best execution obligations will be satisfied when orders have been executed within the required time period, which is pre-determined by the fund administrators so that the executions are captured for the correct valuation.

For execution scenarios please refer to Appendix 2.

## **10. Monitoring & Oversight**

### **10.1 Roles & Responsibilities**

CLAM operates a three-lines-of-defence model. For this Policy this means each line has the following responsibilities:

- First line (fund managers and dealers): responsible for achieving and reporting on best execution activities
- Second line (Compliance Function including Investment Governance): ensures this Policy sets out all regulatory requirements and monitors the best execution activities of the first line
- Third line: (Internal Audit) provides independent review of the best execution activities

All monitoring and analysis regarding current execution arrangements, including Transaction Cost Analysis (TCA) reports and any proposed changes to improve and enhance our execution arrangements will be reviewed and discussed at the Order Execution Governance Committee in accordance with its Terms of Reference.

### **10.2 Broker Reviews & Analysis**

The authorised broker list is reviewed at least annually by the dealers and fund managers for accuracy of contact information, commission rates and whether broker relationships should continue to be maintained. There is also a formal review conducted at least annually by the Order Execution Governance Committee.

Order execution is monitored pre- and post-trade and is subject to regular sampling, testing and evidencing against order execution criteria to ensure the best possible result is obtained during the execution process. CLAM will use appropriate benchmarks through our Transaction Cost Analysis (TCA) system to determine the overall quality of execution.

For equities, the Head of Equities and central dealers monitor broker performance using the TCA system to highlight and raise enquiries where the analysis identifies areas brokers could have improved or achieved a better result.

For fixed income the fund managers monitor broker performance through the reliability of executable prices and the size of trades shown in MTF's. This is further supported by reporting from the TCA system where appropriate.

CLAM considers new venues or sources of information and analysis establishing what benchmark data may be available. This will provide information on trading conditions and quality of execution across different venues through a series of metrics such as volume, frequency of trading, resilience or execution price related information.

### **10.3 Policy Maintenance**

CLAM monitors on a regular basis the effectiveness of the Order Execution Policy; in particular, the execution quality of the entities identified in the Policy and, where appropriate, corrects any deficiencies.

The Order Execution Policy supports and is aligned to the CLAM Conflicts of Interest Policy, which helps to identify, prevent or manage potential and actual conflicts of interest that may arise between us, our clients and third parties such as brokers.

### **10.4 Regulatory Disclosure Requirement & Consent**

CLAM will provide and publish (on [www.canadalifeinvestments.com](http://www.canadalifeinvestments.com)) on an annual basis, for each class of financial instrument, information relating to the top five venues where CLAM has placed orders for execution in the preceding year, this based on trading volumes.

The annual report is presented to the CLAM Executive Management Committee (EMC), prior to publishing. The EMC is also presented with an update on best execution reporting exceptions, challenges and changes to the Order Execution Policy, as agreed by the Order Execution Governance Committee.

CLAM will obtain a clients' prior consent to this Order Execution Policy and also to execute orders outside of a trading venue, where the need arises. CLAM deems that our clients, through their IMA's, have provided such consent unless they have informed otherwise.

CLAM also provides its own consent, when requested, on the same points stated above.

# Glossary

## **FCA COBS 11.2A**

Financial Conduct Authority (FCA) Handbook, Conduct of Business (COBS) Sourcebook 11.2A, is the regulatory rules and guidance specifically for Dealing and Managing, including best execution.

## **Regulated Market (RM)**

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 the system and in accordance with its non-discretionary rules – 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 authorized and functions regularly and in accordance with Title III of MiFID II

## **Multilateral Trading Facility (MTF)**

A multilateral system, operated by an investment firm or a market operator, which brings together multiple third party buying and selling interests in financial instruments – in the system and in accordance with non-discretionary rules

## **Organised Trading Facility (OTF)**

A multilateral system, which is not a Regulated Market or an MTF and in multiple third party buying and selling interests in bonds, structured finance products, emission allowances or derivatives are able to interact in the system in a way that results in a contract in accordance with Title II of MiFID II.

## **Systematic Internaliser (SI)**

An investment firm which, on an organized, frequent and systematic basis, deals on its own account when executing client orders outside a Regulated Market, and MTF or an OFT without operating a multilateral system.

## **Professional Client**

Professional Clients are considered to possess the experience, knowledge and expertise to make their own investment decisions and assess the risks inherent in their decisions. A client meeting the criteria broadly speaking this means regulated entities, large undertakings, national or regional governments, public bodies that manage public debt at national or regional level, central banks, international and supranational institutions and other institutional investors whose main activity is to invest in financial instruments is considered to be a Professional Client.

## **Price**

Prevailing market price of the security.

## **Cost**

Implicit and explicit cost of trading. This will take into account the commission, slippage and market impact to the trade. When placing an order, the dealer/fund manager will need to evaluate the potential market impact it will have based on the available information and previous experience.

**Size of trade**

Having confidence that the broker can execute the transaction and size of trade to prevent unnecessary market impact dealers' / fund managers will assess the suitable amount of shares/securities to deal to avoid fluctuations in the security price that will result in increased implicit cost of trading.

**Trade idea generation**

When there is limited liquidity, ensuring brokers show the best trade ideas to CLAM early/first.

## Appendix 1: Execution Factors Matrix

Instrument Classification	MiFID II Asset Classification	Asset Description (if required):	Execution Factor Priority	Execution strategies used
Equities	Shares and Depository Receipts (including IPO's)	n/a	1. 1. Price 2. Size of Trade 3. Likelihood of Execution and settlement 4. Other	<ul style="list-style-type: none"> <li>• Limit</li> <li>• Liquidity</li> <li>• Inline</li> <li>• VWAP</li> <li>• Block</li> <li>• Switch</li> </ul>
Equity Like	Equity Derivatives	Chinese & Indian P-Notes	1. 1. Price 2. Size of Trade 3. Likelihood of Execution and settlement 4. Other	<ul style="list-style-type: none"> <li>• Limit</li> <li>• VWAP</li> <li>• Inline</li> </ul>
	Exchange Traded Products (ETFs, ET Notes and ET Commodities)	n/a	1. 1. Price 2. Size of Trade 3. Likelihood of Execution	RFQ
Fixed income	Liquid debt instruments	Government bonds Corporates bonds	1. Price 2. Likelihood of execution and settlement 3. Other	<ul style="list-style-type: none"> <li>• Indication of Interest</li> <li>• Liquidity</li> </ul>
	Illiquid debt instruments	Corporates bonds Government bonds Private placements	1. Likelihood of execution and settlement 2. Price 3. Other	
	Money market instruments	Time deposits Commercial paper Certificate of deposit Bonds	1. Likelihood of execution and settlement 2. Price 3. Other	
	Interest rates & currency derivatives	Permitted derivatives	1. Price 2. Likelihood of execution and settlement	n/a
Foreign exchange (FX)		Currency Spot	Not caught by the MiFID II best execution requirement, but firms will owe clients a duty of care in how they deal in spot markets	n/a

## Appendix 2: Execution Scenarios

Scenario No.	Order Type	Process description
<b>Equities &amp; Equities like:</b>		
1	<b>Liquid and Trade below 5% ADV</b>	<p>1) Search natural liquidity via IOIs/calls/Bloomberg.</p> <p>2) If no immediate liquidity executes at a low cost commission rate with execution only broker.</p>
2	<b>Large single Stock trade - above 5% ADV</b>	<p>1) Search natural liquidity via IOIs/calls/Bloomberg.</p> <p>2) If no natural liquidity then add to dark pool sweeping.</p> <p>3) Use alternative broker with previous form if no natural</p>
3	<b>Programme Trades</b>	Chosen from a selection of programme trading desk - performance is monitored in monthly best execution meetings to allow trader to choose the appropriate broker for each trade
4	<b>ETFs</b>	Gather competing quotes via Request for Quotes (RFQ) and execute at the best price
5	<b>New Issue</b>	Orders are placed with all syndicated brokers at a predetermined amount with in trading limits.
<b>Fixed Income</b>		
1	<b>Government Trades</b>	For all liquid government trades where possible execute electronically obtaining 3 competing quotes.
2	<b>Other Fixed Income products</b>	Trader/FM uses discretion to search for natural liquidity, gathering Market intelligence to enable best execution.
3	<b>New Issue</b>	Orders are placed with all syndicated brokers at a predetermined amount with in trading limits.

### Appendix 3: Version control

Version	Author	Date	Summary
V0.9.5	Delegated owners	08/12/2017	First draft
V1.0	Delegated owners	13/02/2018	Finalised formatted draft for approval
V1 2018		23/02/2018	BOARD approved
V1.1	Delegated Owners	01/02/2019	Reviewed by Delegate Owners
V1.2	Investment Governance Team	05/02/2019	Reviewed with comments and edits
V1.3	Delegated Owners	18/02/2019	Included collective investment schemes section
V2 FINAL		22.02.2019	APPROVED BY EMC
V2.1	Delegated owners	09.04.2019	Included update on CLL / CLAM execution agreement
V2.2	Delegated owners	Jan 2020	Reviewed by Delegate Owners
V2.3	Delegated owners	17/01/2020	Finalised formatted draft for approval
V3.0		05.02.2020	APPROVED BY EMC
V3.0 FINAL		13.05.2020	Approved by CLAM Board Risk Committee