



# Best Execution, Allocation and Monitoring Policy (Order handling)

Owner/Issuer: [Chief Dealer]

## Why do we have this Policy?

The purpose of this policy is to meet the firm’s regulatory obligation under Section 103 of the Investment and Securities Act, 2007 and Rules 15.19, 15.23 & 15.37 of The Rules for Regulation as a Dealing Member of the Nigerian Stock Exchange. Kapital Care Trust And Securities Limited (KCAR or The Firm) is required to take all reasonable steps to seek to obtain, when executing orders on behalf of clients or decision to deal, the best possible results for its clients taking into account the criteria and factors set out in this policy.

This policy outlines all the reasonable steps taken by [name of firm] to ensure we achieve best execution for all clients and that their order is handled in a fair, just and timely manner.

## Who does this Policy apply to?

<b>Location</b>	All
<b>Legal Entity</b>	Kapital Care Trust And Securities Limited
<b>Business Area</b>	All
<b>Roles</b>	All

## Revision History

Version	Author	Status	Date	Revisions
2018	Chief Dealer	Active	Sept.2018	Bi-Annually

Non-adherence to any part of this policy may result in disciplinary action including dismissal.

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# Policy

## 1. Purpose

This policy sets out the firm's execution methodology and approach in respect of client order execution when taking all reasonable steps to obtain the best possible results in accordance with the requirements of the appropriate regulatory bodies and best practices for its clients when executing or transmitting Client orders.

The firm is also required to execute orders in a prompt, fair and expeditious manner, relative to other orders or the trading interest of the firm. This policy will also address the firm's approach in respect of the aggregation and allocation of orders.

A summary version of this policy will be provided to each client firm whether Retail or Institutional Client.

## 2. Scope

This policy applies to all trades in financial instruments executed or placed by the firm on the Nigerian Stock Exchange, NASD, FMDQ or any other capital market trade point recognised and authorised by the Securities and Exchange Commission.

## 3. Best Execution

In general, the concept of best execution is the act of obtaining a combination of price and commission (if any) in a transaction that is most favorable to the client under prevailing market conditions.

When executing trades on behalf of clients, the traders have a duty to select brokers, dealers, or banks that will enable the firm to obtain best execution for our clients and to comply with any applicable legal requirements. Consequently, the trader must, when executing trades, exercise due care, skill, judgement and consideration for execution criteria (as detailed below) when handling client order.

### Best Execution criteria

The firm will take into account the following factors in determining how to execute our clients' orders, make decisions to deal or place orders with a counterparty to achieve the best possible result:

- ✓ **Price** of the Financial instrument which are offered by the Execution Entity or Execution Venue;
- ✓ The direct and indirect **costs** related to the execution of such Financial Instruments such as
  - All expenses incurred which are directly related to the execution of the order;
  - Execution venue fees;

- Clearing and settlement fees; and
- Any other fees paid to third parties involved in the execution of the order
- ✓ Speed (how quickly the order can be executed)
- ✓ likelihood of execution and settlement
- ✓ Size of the order relative to other trades in the same financial instrument
- ✓ Nature of the order (impact on the market); and
- ✓ Other relevant factors

The relative importance of these factors will be determined based on our commercial experience and judgement in the light of available market information and taking into account the characteristics of the client, the order, the financial instruments that are the subject of the order, and the execution venues to which that order can be directed.

### Specific Client Instructions

Where a client provides specific instructions as to execution, the order will be executed in accordance with those instructions. This may prevent the firm from taking the steps designed and implemented in this policy to obtain the best possible results for the execution of those orders in respect of the elements covered by those instructions.

Where there is no specific client instruction as to how an order should be executed, this policy will be applied to obtain the best possible result for each order that we place for execution in the market or execute ourselves on behalf of our clients taking into account all available market information at the time of execution.

The Portfolio Manager and the Traders must ensure that all confirmed client orders are entered into the Exchange's order books immediately and continue to pursue the execution of the mandate to buy/sell within 10 business days or as detailed in the client's mandate. If after this period, the trade has not been executed, the Portfolio Manager should seek to revalidate the Client order from the client unless expressly advised otherwise by the client in the initial order.

### Execution Venue

Execution venue means a regulated market or any other trading facility that performs a similar function.

This Firm is a member of, and places significant reliance on the following venues when executing orders:

- I. The Nigerian Stock Exchange
- II. Abuja Commodities Exchange
- III. NASD Exchange
- IV. Lagos Commodities and Futures Exchange

The Firm assesses the available execution venues to identify those that will enable us, on a consistent basis, to achieve the best possible result when executing or placing orders on behalf of our clients.

The factors listed in 3.1 are taken into account in the choice of execution venue and methodology for all financial instruments. In particular:

- ✓ Where we believe we can trade to the advantage of (or at no disadvantage to) the client in terms of one or more of price, speed of likelihood of execution impact, or any other relevant consideration, we will do so.
- ✓ When placing orders on a regulated market through an executing agent, orders will generally be executed on the execution venue assessed to be the most appropriate

This firm selects its executing agent primarily on the basis of their execution capabilities and always on the basis of due diligence. All relevant facts and circumstances concerning an executing agent are considered and include:

- I. The terms of the Entity's execution policy, including costs and fees, where such a policy is available
- II. The Entity's methodology in ensuring best execution is attained
- III. The commercial experience, judgement and history of the Entity
- IV. The Entity's assessment and use of trading venues in order to enable the Entity, on a consistent basis, to achieve the best possible result when executing client orders
- V. The approach of the entity to the aggregation of Client orders

## 4. Order Handling

### General principles

- i. The firm will provide for the prompt, fair and expeditious execution of order, relative to other orders of the trading interests of the firm. This must allow for the execution of otherwise comparable orders in accordance with the time of their reception by the firm
- ii. When carrying out orders, all areas of the Business Areas must:
  - a. Ensure that orders are executed as promptly as possible and subject to any client instructions, client orders must be executed within trading hours of it being received by the firm. Where orders are not executed within a trading day, a record of the reason must be made in writing and retained
  - b. Ensure that executed orders are promptly and accurately recorded and allocated;
  - c. Ensure all orders are received in writing or taken through recorded telephone lines from the client account holder only; and
  - d. Carry out otherwise comparable orders sequentially and promptly unless the characteristics of the order or prevailing market conditions make this impractical, or the interests of the client require otherwise.
- iii. Order received through multiple and different media will be handled as practically possible with the aim for sequential treatment wherever possible.
- iv. The firm will not trade on its own account ahead of a client order, unless the firm immediately executes the customer order at the same or better price than it traded for its own account.
- v. The firm will not aggregate a client order with a trade for our own account (Proprietary trade)

### Equities, Fixed Income and related securities

Achieving best execution for Fixed Income and related securities will depend on the transaction strategy type being entered into. The standard method for establishing the market level is to request three market prices for each asset. If possible at least two of these prices should be executable and the third may be a reference. All prices obtained are recorded on a trade sheet regardless of whether it was obtained by telephone or electronic trading (i.e. trade system). The trade will then be concluded through the venue that provides the best price.

For Equities, the firm will seek the most favourable bid/offer price available in the market at the time of executing the trade. The trader will record the rationale for accepting the market level and make a note in the trade sheet of the trade to capture their assessment.

### Order allocation

Where a clients' order is completed in full i.e. the dealer is able to buy or sell the desired quantity that the client has specified, the order should be allocated in accordance with the clients' mandate.

However, in some instance, the firm may combine the orders of different clients, in the same security and execute it as one trade, this is commonly referred to as aggregating orders.

The firm will aggregate orders to give its clients the benefits of efficient and cost effective delivery of our services. By aggregating orders, the firm may also obtain more favourable execution and lower broker commissions. The fairness of a given allocation depends on the facts and circumstances involved, including, but not limited to, the client's investment criteria, account size, and the size of the order.

Client Orders will not be carried out in aggregation with another Client Order unless

- a. Aggregation of orders and transactions does not disadvantage any client whose orders is to be aggregated;
- b. The provisions relating to order allocation set out in 4.4 - 4.10 below are complied with.

In aggregating trade orders and allocating available securities (i.e. securities available in the market to fill the order at the time of trade), the firm must provide fair and equitable treatment to all clients.

In respect to Market Orders and Limit Orders, the Firm will not withdraw or withhold client orders for its convenience or any other person.

Order Allocation procedure for aggregated orders

#### 1. Allocation of completely filled order

Where an aggregated order is filled completely i.e. the firm is able to buy the exact quantity desired e.g. the total of the order is 50,000 units and the firm is able to get this, then each client must be allocated the exact amount they requested. An example is provided below:

Clients A, B and C have requested 10,000, 15,000 and 40,000 respectively of security X i.e. a total of 65,000 and the firm is able to buy 65,000, each client must be allocated the exact amount they requested.

#### 2. Allocation of part filled aggregated order

Where an aggregated order is part filled i.e. the firm is not able to buy all the quantity required. **Please see the example below for guidance:**

A Portfolio Manager [PM] looking to purchase different quantities of the same security [company XYZ] for three of his clients [client A, B & C], has aggregated the three orders [*Client A needs 50,000 shares, Client B - 20,000 shares and Client C - 30,000 shares*] into a single order of 100,000 shares to the trader.

The trader is only able to buy 70,000 shares, the trader will then need to inform the PM of the market availability of company XYZ securities in the market and the PM will need to then carry out a pro rata allocation analysis based on the initial ratio of the aggregated order as detailed below

Since Client A needed 50,000 of the total 100,000 shares, their original allocation was [ $50,000/100,000 \times 100\%$ ] 50% of the total initial order, whilst client B [ $20,000/100,000 \times 100\%$ ] had a 20% allocation of the total order and Client C [ $30,000/100,000 \times 100\%$ ] 30% of the total initial order. The PM would then need to allocate the 70,000 share available in the market based on these ratios i.e. Client A will get 50% of 70,000 shares [35,000 share]; client B 20% of 70,000 shares [14,000] and client C 30% of 70,000 shares [16,000].

These new allocations would then be executed.

### **Potential conflicts of interest**

No single account may be systematically favoured over another in the allocation of trade orders. Similarly, accounts are to be treated in a non-preferential manner, such that allocations are not based upon the client's account size and/or identity, account performance, fee structure, or the portfolio manager.

### **Determining the initial Allocation prior to Trade Execution (Pre-trade allocation)**

Initial mandate must be determined prior to executing the trade, clearly indicating the participating client's accounts and allocations for each account.

### **Determining the appropriate Allocation**

Pro-Rata Allocation assures fair and equitable treatment. Trades should be allocated on a pro rata basis based on the size of the pending order, however, there are various judgmental and other factors as described below which may support non-pro rata allocations

### **Non Pro-Rata allocations**

Certain factors may affect a Portfolio Manager's decision to allocate on a pro rata basis. Factors such as, the need to sell out an account's entire position before selling out other client's position due to the client's cash flow, exposure to the security/sector, cash flow (accounts liquidity needs, availability of cash) may form the basis of a non-pro rata allocation. In these situations, the Portfolio Manager must use reasonable fiduciary judgement in making a non-pro rata allocation that is in the best interest of all the affected clients. This should also be fully documented to demonstrate the rationale behind the decision and subsequent allocation.

### **Filling orders according to initial allocation (post trade allocation)**

All orders must be filled in line with the initial mandate as set out in 4.5 above. If the entire order is filled, then every client should have their entire order size met. If the order is partially filled, the executed trade should be allocated pro rata among the clients in the same proportions as the initial order size. Any deviation or reallocation of share from the initial allocation is permitted for up to two hours and thirty minutes (2.30Hrs) from when the trade was executed, however this needs to be fully documented, clearly citing the circumstance and rationale for the deviation.

### **IPO offerings allocation (New Issues)**

The firm maintains a strict policy on ensuring fair and equitable treatment of all clients when purchasing and allocating new issues.

For all new issues, the Portfolio Manager will take into account, the necessary factors such as the clients investment objectives, investment guidelines (any advance indications of client interest for new issues), and the risk profile of the client, the security itself and the size of the order. The Portfolio Manager will have the responsibility for ensuring that, no special arrangement or any inducement scheme exists where the firm agrees to trade more with an executing agent as a result of a greater allotment of a new issue from a book runner.

The Portfolio Manager looking to subscribe to the new issue must have a written record indicating the requested volume. Pre trading allocation must also be completed, as above, on a pro rata basis with consideration for the size of the client's account, adjustment for rounding lots, the mandate type, permissibility of the new issue for the client and cash availability. After filling the order, the Portfolio Manager must record on the trade ticket the actual new issue allocation made to each client/strategy. The rationale for any allocation decision other than

strictly pro rata and adjustment for round lots must be clearly documented and provided on request to the Compliance Department.

### Cross trades

Where the Portfolio Manager has two clients with opposite needs in the same security and it is in the interest of both clients to transact with each other instead of both going to the market, the Portfolio Manager/Trader may cross the trade at the agreed price of the security. However, the Portfolio Manager must ensure that this is not done to the advantage or detriment of either party participating in the cross. The rationale for Crossing should be fully documented and supported with relevant additional information i.e. evidence of Bid/Ask offer obtained from the market, which sufficiently allows compliance have clear oversight of the process.

## 5. Monitoring and Review

The firm will monitor processes to identify transactions that may not have met order execution requirements as outlined in this policy through surveillance undertaken mainly by the second and third lines of defence i.e. Compliance and Audit (internal/External) respectively.

Compliance will monitor, regularly (at least on a Quarterly basis), the effectiveness of the firm's execution arrangements and assess whether the execution venues selected have provided the best possible result. Monitoring will also cover the fair and equitable allocation where they occurred, as well as Cross trades, during the period. Any opportunities for improvement that are identified, will be reported to the Board and Investment Committee so resulting actions may be incorporated into the process and policy.

## 6. Record Keeping

The firm will maintain records in sufficient detail to show particulars of all transaction undertaken, in line with local regulatory requirements. Subject to regulatory requirements, the following records must be retained for each trade executed by the firm:

1. 3 competitive quotes (Fixed Income) and best bid/offer price at time of executing the trade
2. Price
3. Time order received
4. Execution time
5. Order Allocation record



# Standard Information

## 1. Definitions and Glossary

### Term

#### Market level:

the bid or ask price range for a security in the market at the time of executing the trade

#### Market Orders:

Market orders is a buy or sell order to be executed immediately at current market prices. As long as there are willing sellers and buyers, market orders are filled.

#### Limit Orders

A limit Order is a take-profit order placed with the Firm to either buy or sell a set amount of a financial instrument at a specified price or better. The trade may not be executed if the price set by the customer cannot be met during the period of time in which the order is left open.

## 2. Related Documents

# Annex

## 3. Section Title