

Londinium

REGULATED BY CENTRAL BANK OF IRELAND

BEST EXECUTION  
POLICY

*September 2018*



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## 1 Introduction

Londinium Designated Activity Company (hereinafter “Londinium” or the “Company”) is an Irish Investment Manager originally authorised by the Central Bank of Ireland (the “Central Bank”) pursuant to *The European Communities (Markets in Financial Instruments) Regulations 2007* (S.I. 60/2007) (“MiFID Regulations”) to provide investment advice and portfolio management services on a discretionary basis to professional and retail clients, and which is now deemed authorised under Regulation 5(2)<sup>1</sup> of the recently adopted *European Union (Markets in Financial Instruments) Regulations 2017* (S.I. 375/2017) (“MiFID 2 Regulations”) that transposed MiFID II into Irish law with effect from 3 January 2018 and replaced the previous MiFID Regulations. Londinium’s MiFID authorisation does not include the services of reception, transmission or execution of orders for clients, which are covered by additional MiFID rules.

Accordingly, Londinium must comply with the provisions of MiFID II directive in respect of best execution, specifically it is obliged to act in the best interests of clients when executing decisions to deal in financial instruments on behalf of clients. In addition, Londinium shall establish, implement and maintain an effective order execution policy that must be set out in writing.

This Best Execution Policy (the “Policy”) is the means that Londinium employs to ensure it can demonstrate it has taken all sufficient steps to obtain the best possible result for its clients when placing orders for the execution of discretionary decisions to trade in clients’ assets, and it is designed to describe the principles and methods governing the execution by Londinium on the best possible terms for clients and to serve as a basis for clients’ consent to our Best Execution Policy.

Best execution is the process of taking all sufficient steps to obtain the best possible result for clients, taking into account price, costs, speed, likelihood of execution and settlement, size, nature and/or any other consideration relevant to the execution.

The Board of Directors of Londinium considers as one of its fundamental strategic goals to always act in the best interest of its clients. In our business, reputation is paramount and we need to give clients confidence that we will act in their best interest at all times.

In order to fulfil the above strategic goal and comply with the overarching best execution requirement, Londinium segmented its clients in:

- 1) Private Clients (either retail or professional);
- 2) Collective Investment Funds.

Although the obligation to deliver best execution applies to all financial instruments, it needs to be adapted on a case by case basis. In fact, the difference in the market structures requires to apply best execution obligations in a manner that considers the different circumstances, the financial instruments,

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<sup>1</sup> According to MiFID 2 Regulation 5(2) “a person who, immediately before 3 January 2018, is an authorised investment firm under the European Communities (Markets in Financial Instruments) Regulations 2007 (S.I. No.60 of 2007) is deemed, for the purposes of these Regulations, to be an authorised investment firm”.

the prevailing market conditions as well as taking into consideration the characteristic of the clients, as further detailed below.

### **1.1 Best execution obligation in respect of Private Clients**

Londinium may act for both retail and professional private clients. Londinium best execution obligations are limited to some degree by the method clients choose to have their portfolios of assets managed, which described in more detail below.

Private clients' portfolios generally include plain vanilla and liquid instruments which are held for investment purposes rather than for trading purposes, with longer term investment goals (such as investment growth). On this basis, price and total cost of transactions are usually considered to be the most important execution factors.

As far as private clients are concerned, Londinium's regulatory authorisation and business model provide that Londinium has no right to hold clients' assets or clients' funds. Those services are carried out by the custodian bank; therefore to hold any assets a client must hold an account with a custodian bank. The choice of the custodian bank is made by the client. The client then provides Londinium with a limited power of attorney ("LPOA") over those assets so as to authorise Londinium to make discretionary investment decisions on his/her behalf. In addition, as a result of the restrictions set out in the LPOA, clients normally require that the assets be held in a custody account beneficially owned by the client and the custodian bank acts as the execution party, executing the transactions instructed by Londinium under its LPOA mandate. This operating model is particularly familiar to Italian and Swiss clients.

The role of Londinium is therefore restricted to making discretionary investment decisions and deciding what assets should be held in clients' portfolios. Once assets have been selected, Londinium will place the order with the bank chosen for execution by the client as this right has been established in the Investment Management Agreement ("IMA") signed by the private client. As a result of this operating model, the best execution obligation is placed on the custodian bank, as it is the entity which is responsible for execution of the order<sup>2</sup>.

Notwithstanding this, Londinium still has best execution obligations in respect of the decision to deal on behalf of clients. However, as through the Investment Management Agreement the client has placed a specific instruction on where any orders should be executed (i.e. through the custodian bank), Londinium retains no discretion in electing the counterparties where to place orders for execution on behalf of its clients. It is in the best interest of Londinium and of its clients that the custodian bank chosen for execution maintains a high-level standard of services and Londinium will annually review their Best Execution Policy, the agreed transaction costs and the effectiveness of the operational set-up. Londinium will also monitor and review regularly (at least on a quarterly basis part of the Compliance Monitoring checks) the transactions' execution prices to verify the quality of the execution as further indicated in Annex II.

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<sup>2</sup> Please see Recital 88 to ESMA 'Follow-up Report to the Peer Review on Best Execution' published on 11 January 2017 (ESMA42-1643088512-2962) which refers to FMA Liechtenstein response to ESMA.

Londinium does not receive any payments or other kind of inducements made from the custodian bank in respect of any orders placed. Londinium is entirely remunerated by the client as a percentage of AUM as agreed in the IMA.

## 1.2 Best execution obligation in respect of Collective Investment Funds

Londinium provides investment management services to three UCITS sub-funds: Druid ICAV Londinium Global Bonds and Druid ICAV Londinium Global Equities, which are sub-funds of an open-ended Irish-domiciled umbrella ICAV<sup>3</sup>, and White Fleet IV - Algorithmic Evo Fund, which is a sub-fund of an open-ended umbrella fund established under Luxembourg law (all together, the “Subfunds”).

Collective Investment Funds are considered to be *per se* professional clients<sup>4</sup>.

In performing portfolio management services, Londinium shall take all sufficient steps to obtain the best possible result for the Sub-funds and their investors, taking into account the following relevant factors (“Execution Factors”):

- Price, aiming to achieve the best possible price for the client;
- Cost of execution;
- Speed of execution;
- Likelihood of execution and settlement;
- Order size and available market liquidity;
- Nature of the order; and,
- Any other consideration relevant to the execution of the order, such as potential market impact.

Following the relative importance when considering such factors, in order to obtain the best possible result for the Sub-funds and investors<sup>5</sup>, the following criteria shall in particular be considered:

- the investment objective and investment policy as well as the risks specific to the Sub-fund, as indicated in the Fund documentation (Prospectus, Articles of Incorporation of the Fund);
- characteristics of the order
- the characteristics of the financial instruments that are the subject of that order;
- the characteristics of the execution venues to which that order can be directed.

The underlying investors to the Sub-funds may include Retail investors.

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<sup>3</sup> Londinium Global Equities and Londinium Global Bonds used to be sub-funds of White Fleet IV, a Lux domiciled open-ended umbrella fund established under Luxembourg law. They have been recently transferred to Ireland and merged into the Druid ICAV structure effective 19 September 2018.

<sup>4</sup> The criteria to be considered a professional client are outlined in Annex II of MiFID II directive (Article 1 par. 1(e)).

<sup>5</sup> Criteria are also set based on the Investment Management Agreement (“IMA”) signed with the funds’ management company (“Multiconcept”)

In general, the Sub-funds will be driven by price and costs as achieving quality execution at a low price will preserve more value in the Sub-funds for the underlying investors. The only time when price and costs might not be the most important criteria will be where the Company is transacting in less liquid instruments, in which circumstances, likelihood of execution and settlement become the most important factors as there may be limited liquidity to fulfil the required transaction and Londinium is obligated under the Market Abuse Regulation to trade in a manner which does not distort the price (e.g. placing a large, unfillable order in an illiquid security which causes the price to spike upwards despite being unreflective of the true market of the security).

Londinium differentiates execution venues<sup>6</sup>, which are listed in Annex I based on the characteristics of the financial instruments and, as such, it places orders for execution to:

- A) other entities (i.e. brokers) for **financial instruments traded on a regulated market**; which include exchange traded equities, exchange traded products (such as ETF, ETC and ETN), warrants and listed derivatives (i.e. interest rates, equity options and futures);
- B) execution venues for **financial instruments traded or not traded on trading venues**<sup>7</sup> such as bonds, money market instruments, forwards, swaps and other OTC derivatives and structured products.

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- A) Other entities for execution of financial instruments traded on regulated markets which include exchange traded equities, exchange traded products (such as ETF, ETC and ETN), warrants and listed derivatives (i.e. interest rates, equity options and futures)**

As a general rule, exchange traded financial instruments are backed up with well-established pricing sources that enable proper comparison of all relevant factors for the best execution assessment. This is mainly due to the typical features of regulated markets as the process of best execution assessment, analysis of financial instruments, of their prices, costs and other relevant factors cover several instruments, which are typically very liquid.

Where dealing in the above-mentioned financial instruments, which are traded on a trading venue, Londinium always places its orders with other entities for execution.

Given the limited size of Londinium's operations and its limited bargaining powers, it is not possible nor reasonable to have an open channel with too many entities for execution. For this reason, in selecting the entities to place trades with, Londinium has taken into consideration a range of different Execution Factors which include the following:

- a) market reach and geographic location;

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<sup>6</sup> "Execution venue" includes a regulated market, an MTF, an OTF, a systematic internaliser, or a market maker or other liquidity provider or an entity that performs a similar function in a third country to the functions performed by any of the foregoing (Delegated Act 2017/575 Art. 64 (1))

<sup>7</sup> Trading venue means a regulated market, an MTF or an OTF art. 4 (24) Mifid2

- b) transaction cost (execution fees, settlements fees and other fees paid to the financial entities involved in the execution of the orders);
- c) diversification among counterparties;
- d) price and timely execution of the orders including the possibility to place orders, for equities instruments, through Bloomberg execution management solutions (EMSX);
- e) effectiveness of the settlement cycle.

Londinium gives priority to maximizing market reach so as to be able to execute across the globe on behalf of its clients. Once an entity has been selected based on its ability to execute on the selected market, transaction costs and price and timely execution are prioritized as the criteria to allocate the order.

Londinium also requires diversification among counterparties for back-up reasons and in case of reach of daily execution limits (established to minimize fat finger risk).

In selecting execution entities, Londinium shall ensure either that they have MiFID II compliant best execution policies or arrangements in place that will enable Londinium to comply with its obligation to obtain the best possible result for its clients and, for equities instruments, to place order through Bloomberg execution management system. Londinium will monitor that the settlement cycle does not impact the achievement of the best execution for clients.

Londinium will also use the RTS 27 reports published by the venues and brokers it uses to form a view about the quality of execution attained (though it is acknowledged that, as a smaller market participant, not all venues or brokers who offer better prices will be willing to enter into a relationship with Londinium).

**B) Execution venues for financial instruments traded or not traded on trading venues such as bonds, money market instruments, forwards, swaps and other OTC derivatives and structured products**

Fixed Income Instruments

Ordinarily, fixed income markets are characterized by proprietary trading transactions, are decentralised, fragmented and have low pre-trade transparency, because the counterparties generally do not make the prices quoted available to a broad market. Rather, these prices are negotiated on a bilateral basis with the counterparties and they are able to withdraw them if they so wish. These counterparties often have proprietary holdings in these instruments, for which they quote prices. Unlike financial instruments traded on a regulated market, for fixed income instruments the choice of counterparties is often limited. In many cases, as the instruments are only offered by a limited number of counterparties, there is not much transparency in terms of liquidity or price.

In volatile non-transparent markets, especially for bonds, Londinium might have no choice but to accept the first price offered without the opportunity to obtain or request other prices as there are lulls and spikes in trading as negotiations align trading interests in different times and different parts of the curve.

Moreover, there may be financial instruments offered exclusively through one counterparty, or for which settlement of an order of a certain size can only be guaranteed by one counterparty, in which case it is not possible to obtain a comparative price.

When taking decision to deal, Londinium will check the fairness of the price proposed by gathering market data used in the estimation of the price of such instrument and, where possible, by comparing with similar or comparable instruments. The price discovery process and checks will be undertaken on a systematic basis and documented for every trade so as to be monitored and reviewed for best execution assessment.

Thus for OTC transactions, likelihood of execution and settlement (subject to a reasonableness check on price and costs) are considered to be the most important execution factors.

In addition to the proposed price, Londinium will also consider market size and liquidity as well as the need for timely execution and ability to provide settlement as factors for selecting the execution venue that provides the best balance across all factors.

#### Forex

When fulfilling best execution requirements with respect to FX forwards and swaps, Londinium will place greater importance to total cost consideration and legal/operation cost of the set-up. When dealing in FX forwards and swaps the funds must have an ISDA agreement in place with the counterparties and Londinium receives specific instructions by the Board of Directors of the ICAV (“Druid”) subject to the approval by the management company (“Multiconcept”).

## **2 Annual Top 5 Execution Venue Report**

As part of the disclosure obligations associated with best execution, MiFID II has introduced a public reporting obligation, according to which Londinium shall publish on its website on an annual basis for each class of financial instruments the top five investment firms (Article 65 (6) Delegated Regulation) as well as the top five execution venues (Article 27 (6) of Mifid II) in terms of trading volumes where it placed or executed orders on behalf of clients in the preceding year and information on the quality of execution obtained.

Information on executing entities and venues shall be reported in accordance with ESMA’s Regulatory Technical Standards.

Additionally, as prescribed under the relevant legislation, Londinium shall make *separate reports*, depending on whether the execution venues were used for:

- professional client orders;
- retail client orders;
- securities Financing Transactions (SFTs)

The format of the reports shall mirror the format prescribed under the relevant legislation, which is set out in Annex II of RTS 28.

As far as the content of the report is concerned, for each class of financial instrument Londinium shall disclose the *top 5 execution venues* in terms of trading volumes of executed orders (excluding securities financing transactions), and shall specify the following information:

- a) class of financial instruments;
- b) venue name and identifier;
- c) volume of client orders executed (i.e. placed for execution) on that execution venue expressed as a percentage of total executed volume;
- d) number of client orders executed (i.e. placed for execution) on that execution venue expressed as a percentage of total executed orders;
- e) percentage of the executed orders referred to in point (d) that were passive<sup>8</sup> and aggressive<sup>9</sup> orders;
- f) percentage of orders referred to in point (d) that were directed orders<sup>10</sup>;
- g) confirmation of whether it has executed an average of less than one trade per business day in the previous year in that class of financial instruments.

In addition to the above-mentioned qualitative criteria, Londinium in such reports shall provide a summary of the analysis and conclusions drawn from its detailed monitoring of the quality of execution obtained on the execution venues where it placed clients' orders for execution in the previous year. This summary shall include:

- a) an explanation of the relative importance given to the execution factors of price, costs, speed, likelihood of execution or any other consideration including qualitative factors when assessing the quality of execution;
- b) a description of any close links, conflicts of interests and common ownerships with respect to any execution venues used to execute orders;
- c) a description of any specific arrangements with any execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received;
- d) an explanation of the factors that led to a change in the list of execution venues listed in the Company's best execution policy, where such a change occurs;
- e) an explanation of how order execution differs according to client categorisation, where applicable and where different clients' categories may affect the order execution arrangements;
- f) an explanation of whether other criteria were given precedence over immediate price and cost when placing retail clients' orders for execution, and how these other criteria were instrumental in delivering the best possible result in terms of the total consideration to the client;
- g) an explanation of how Londinium used the information acquired under RTS 27;

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<sup>8</sup> A passive order is an order entered into the order book that provided liquidity.

<sup>9</sup> An aggressive order is an order entered into the order book that took liquidity.

<sup>10</sup> A directed order is an order where a specific execution venue was specified by the client prior to the execution of the order.

There is no specific requirement format for publications under RTS 27 or 28, however they should be in a machine-readable electronic format. As already confirmed by ESMA, Londinium shall publish such reports on its website at the start of the new calendar year.

### **3 Regular Monitoring and Review**

Londinium shall regularly monitor the effectiveness of its order execution arrangements and execution policy to identify and, where appropriate, correct any deficiencies. Such monitoring shall involve the assessment, on a regular basis, in order to determine whether Londinium complied with this order execution policy and/or arrangements over the relevant period, and whether the resulting transactions delivered the best possible result for clients.

Londinium shall assess regularly whether the execution venues included in Annex I provide for the best possible result for its clients and if not, shall consider whether changes need to be made to its best execution arrangements. Londinium will monitor the continued effectiveness of its execution arrangements. Londinium will consider the results achieved for its clients against the pricing level available on the relevant markets at the time of the order and throughout of the duration of the order. To check the fairness of the executed prices, Londinium will set annually a benchmark as a reference price and a tolerance range for each type of Instruments as defined in Annex II, which is available upon request by clients. Over time Londinium will monitor the effectiveness of the benchmarks and review the “Execution Factors” for each type of instrument and venues.

In addition, Londinium shall check on an annual basis that the top 5 Execution Venues Report has been published in the Company’s website within the deadline internally agreed.

Londinium shall review this best execution policy on a regular basis, at least annually or whenever a material change occurs that affects its ability to obtain the best result for its clients on a consistent basis using the venues included in this execution policy. Anytime this policy is reviewed and amended, it shall be submitted to the Board of Directors for consideration and approval. Compliance shall promptly notify all staff and employees of any material changes to the internal execution arrangements or best execution policy. In addition, adequate training shall be provided to staff on best execution on regular basis (at least annually).

Londinium will notify clients with whom it has an ongoing client relationship of any material changes to its order execution arrangement or execution policy.

**ANNEX I - List of Execution Venues**

EXECUTION VENUES	EXCHANGE TRADED FINANCIAL INSTRUMENTS			NON-EXCHANGE TRADED FINANCIAL INSTRUMENTS		
	Equities	Derivatives	Exchanged traded products	Money Markets	Bonds / Structured Products	Forex
Bloomberg MTF				✓	✓	
Guy Butler Ltd					✓	
Royal Bank of Canada Capital Markets (*)					✓	
BNP Paribas Suisse SA*				✓	✓	
Ashenden Finance					✓	
Oppenheimer					✓	
Paradigm	✓					
Morgan Stanley (*)	✓					
Credit Suisse	✓	✓	✓		✓	✓
JP MORGAN (*)	✓		✓		✓	✓
ICAP Securities LTD	✓		✓			
OCTO Finance					✓	
Jefferies International Ltd.					✓	

(\*) Execution Venues which act as Systematic Internaliser for bonds and structured products.

## ANNEX II – List of Benchmarks

<u>INSTRUMENTS</u>	<u>BENCHMARK</u>	<u>DEFINITION</u>	<u>TOLERANCE RANGE</u>
Exchange traded equities and products	<b><u>Bloomberg VWAP</u></b> (‘Volume Weighted Average Price’)	It is calculated by dividing the dollar value of transactions by the average volume.  It is calculated by adding up the dollars traded for every transaction (price multiplied by number of shares traded) and then dividing by the total shares traded for the day (the theory is that if the price of a buy trade is lower than the VWAP, it is a good trade)	The difference between the executed price and benchmark price is set at <b>0.15%</b> . Within this range, the execution is considered at best.
Listed Derivatives	<b><u>Bloomberg VWAP</u></b>	It is calculated by dividing the dollar value of transactions by the average volume.	The difference between the executed price and benchmark price is set at <b>0.15%</b> . Within this range, the execution is considered at best.
Bonds / Structured Bonds	Average among the <b><u>Bloomberg Generic Price (BGN), CBBT and BVAL</u></b> .  For less liquid bonds, the reference price will be assessed by using internal models such as analysing comparable liquid bonds issued by the same issuer or bonds issued by comparable companies	<b><u>Bloomberg Generic Price (BGN)</u></b> is Bloomberg's market consensus price for corporate and government bonds.  The <b><u>Composite Bloomberg Bond Trader (CBBT)</u></b> is a composite price based on the most relevant executable quotations on FIT, Bloomberg's Fixed Income Trading platform. Its aim is to indicate where clients can reasonably expect to execute on the platform during trading hours, and prices are updated as dealer levels change.  <b><u>Bloomberg's BVAL Evaluated Pricing Service</u></b> provides transparent and highly defensible prices for fixed income securities	The difference between the executed price and benchmark price is set at <b>0.15%</b> . Within this range the execution is considered at best.

		across the liquidity spectrum. The key to BVAL's methodology is its real-time access to market observations from a wealth of contributed sources. This accumulated mass of market data is the main driver of a quantitative approach that first corroborates market levels on actively traded bonds and then derives a comparable relative value price for those securities that are less liquid.	
<b>Spot / Forwards / Swaps</b>	<b><u>Bloomberg Generic Price (BGN)</u></b>	<b>Bloomberg Generic Price (BGN)</b> is Bloomberg's market consensus price for Spot.	Best Execution is proved where the rate is within <b>0.10%</b> range.

- 1) In relation to **private clients' transactions**, as Best Execution applies to single financial instruments, the same rationale and the same criteria described in the table above shall apply depending on the instrument traded **on behalf of the single client**.
- 2) Where the Company starts trading on new instruments, these **new financial instruments** may be added to the table above when carrying out the annual review of the policy.

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**Document Control**

The purpose of the table below is to enable employees to follow any updates, amendments or additions to the policy. Compliance will be responsible for ensure the policy is kept up to date and will be responsible for completing the table below:

<b>Version Number</b>	<b>Issue Date</b>	<b>Approved by</b>	<b>Changes made</b>
V1	September 2013	Board of Directors on 13/09/13	Full Revision
V2	September 2014	Board of Directors on 05/11/14	Annual Review
V3	October 2015	Board of Directors of 21/10/2015	Annual Review
V4	September 2016	Board of Directors of 18/10/2016	Annual Review
V5	January 2018	Board of Directors of 21/02/2018	MiFID II Review
V6	September 2018	Board of Directors of 21/11/2018	Annual Review