



Order Execution Policy

DOCUMENT CONTROL

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LPFI Limited is authorised in the UK by the Financial Conduct Authority as a MiFID II investment manager. LPFI may act as an investment manager in relation to equity, fixed income and FX investments.

When placing orders on behalf of clients, LPFI must act in the client's best interests. LPFI is required to take all sufficient steps to achieve the best possible result for its clients, taking into account the execution factors (described below). This is what is meant by "best execution". LPFI has established and implemented effective arrangements for complying with its best execution obligation, as set out in this policy.

The regulatory requirements of "best execution" do not demand that firms achieve the best possible result with every trade, but that they focus on taking all sufficient steps for obtaining the best possible result on a consistent overall basis. It is LPFI's policy, therefore, to have a process which ensures that every order is treated in a way that aims to maximise the chance of getting the best set of results when trading.

SCOPE

All of LPFI's clients are categorised as 'elective professional clients'. The portfolios of assets owned by Lothian Pension Fund ("**LPF**") are not managed by LPFI. LPF is internally-managed. LPFI is, however, responsible for the transmission and reception of orders for LPF and for the purpose of this policy, LPF is referred to as a client of LPFI.

This policy applies to orders where LPFI acts on its clients' behalf in the following circumstances:

- 1) where LPFI executes a transaction directly with an execution venue, for example, when LPFI buys or sells bonds to a broker; and
- 2) where LPFI passes a transaction to a broker to manage the execution process for example, where the broker acts as agent in the transaction and finds a counterparty to the transaction.

This policy applies to financial instruments traded for equity and fixed income mandates managed by LPFI. It should be noted that LPFI may, when mandated by its clients to do so, also trade spot and forward foreign exchange instruments. LPFI has appointed The Northern Trust Company ("**NTC**") to place FX trade orders on its behalf. LPFI uses the electronic trading platform FX Connect as a multi-lateral trading facility ("**MTF**") to transmit instructions to NTC. NTC must execute such orders in accordance with an agreed algorithm, intended to support LPFI's best execution. In addition to executing regular currency trades algorithmically, NTC may execute certain restricted currencies (typically the less liquid Asian currencies) as market orders.

ORDER EXECUTION FACTORS AND CRITERIA

Execution factors that should be considered are, without limitation:

- price;
- size and nature of the order;
- liquidity profile;
- costs (implicit and explicit);
- speed; and
- likelihood of execution and settlement.

The criteria to be taken into account when determining the relative importance of the execution factors to a particular trade, are, without limitation:

- characteristics of the client (although all of LPFI's clients are Professional Clients);
- any investment guidelines or restrictions and regulations applicable to the client's portfolio that may affect how orders are placed;
- characteristics of the client order;
- characteristics of the financial instruments that are subject of that order; and
- characteristics of the available execution venues or brokers selected to execute the order

The relative importance of each factor is unique to the particular circumstances surrounding an individual trade and will therefore vary. Each order transacted is inherently unique in its characteristics and market conditions are never constant.

That said, the particular combination of total consideration (price of the instrument and costs of execution, both implicit and explicit) and size are usually the most important combination of factors in relation to execution. Keeping the direct costs of trading low (such as commissions) is only part of the process. Making good pre-trade decisions on how best to minimise the implicit costs (such as market impact and opportunity cost) are of equal or greater importance.

LPFI expects that the speed of execution could be impacted by the desire to broadly maintain market exposure and/or balance cashflows. For a global programme trade, geographic imbalances can influence the timing/speed of execution.

FIXED INCOME TRADING

LPFI is responsible for order execution for fixed income instruments (specifically sovereign debt) and has full discretion over the choice of execution venue.

An execution venue is an entity that provides a market-place, and thereby liquidity, to those wishing to trade in securities. Execution venues include regulated markets, MTF and market makers. For the purpose of this policy we consider brokers (who may in turn access these venues or act as systematic internalisers), including brokers engaging in the OTC bond markets, as execution venues. When executing orders or taking decisions to deal in OTC products including bespoke products, LPFI shall check the fairness of the price proposed to the client, by gathering market data used in the estimation of the price of such product and, where possible, by comparing with similar or comparable products.

LPFI maintains an approved broker list which is formally reviewed by the Gilts Policy Group (the “**Group**”) annually. A copy of the approved broker list is available to clients upon request. Changes to the approved broker list must be approved by the Group and can be made on an ad hoc basis. Given the size and nature of LPFI’s anticipated order flows, LPFI believes that suitable control and sufficient liquidity is available through its approved broker list.

LPFI uses its commercial judgement and available market information to direct orders to the most appropriate approved broker, taking into account the execution factors and the relative importance of those factors as determined by LPFI. For relatively liquid bonds, price is likely to be the most significant factor. For higher risk orders, or less liquid bonds however, execution factors other than price (for example likelihood of execution) may be given a higher weighting. LPFI will not structure or charge its commissions in a way which discriminates unfairly between execution venues.

LPFI uses the electronic trading platform Bloomberg TSOX as an MTF to execute orders. This facilitates LPFI’s access to the approved brokers and supports LPFI’s adherence to its detailed trading protocols. LPFI also uses Bloomberg’s VCON (voice trade confirmation system) or instant messenger service to execute orders.

LPFI’s transaction cost analysis in relation to trades undertaken is described in the paragraph below on Monitoring. Bloomberg also supports LPFI with its regulatory obligations relating to transaction reporting.

EQUITY TRADING

LPFI does not have internal expertise, specialist staff or systems dedicated to trade execution for equities. It has outsourced trade execution for equities to its delegate, Northern Trust Securities LLP (“**Northern Trust**”).

Northern Trust is a leading provider of execution services with in-depth expertise in trade execution across global equity markets. Northern Trust was selected to undertake this function on behalf of LPFI following detailed due diligence and analysis of their execution capabilities, expertise, systems and controls. The delegation arrangement provides LPFI with comprehensive dealing desk functions which operate globally and facilitate access to all relevant brokers and execution venues. Northern Trust acts solely in an agency capacity on behalf of LPFI.

Northern Trust is required to take all sufficient steps to achieve the best possible result for LPFI’s clients on a consistent basis, taking into account the execution factors and the relative importance of those execution factors as agreed with LPFI. There are detailed trading protocols which Northern Trust adheres to when providing these dealing services.

Northern Trust also provides LPFI with detailed execution data and transaction cost analysis in relation to trades undertaken (see paragraphs below on Data Publication and Monitoring) and supports LPFI with its regulatory obligations relating to transaction reporting.

LPFI has considered Northern Trust’s own execution policy and execution arrangements in detail, and believes that the arrangements with Northern Trust ensure that clients obtain the best possible results in relation to the execution of trades. When Northern Trust places an order for execution on behalf of LPFI, Northern Trust will ensure that the broker is under an obligation to provide best execution in relation to that trade.

For every trade undertaken on behalf of a client, Northern Trust considers the execution factors and the execution criteria described above, and determines the most appropriate approach to the execution of that order with a view to achieving the best possible result for the client.

Where orders are transmitted to Northern Trust for execution, immediately after making the transmission and immediately after receiving confirmation that an order has been executed, LPFI records certain details of the transaction in question.

If Northern Trust were ever concerned that a particular order might significantly impact the market price or cause any other form of market disturbance, it would refer back to LPFI before proceeding.

Northern Trust arranges for the execution of trades through a number of brokers, trading platforms and venues including regulated markets, multilateral trading facilities and systematic internalisers. It is possible that trades will be executed outside of a regulated trading venue and in these circumstances the trade will carry additional counterparty risk¹. LPFI will provide further information on these types of trades if requested by a client.

Northern Trust uses a number of trading platforms including Bloomberg, Tradeweb, Marketaxess and Candeal, to request competing quotations from potential counterparties and to assess market liquidity. Northern Trust use their expertise and judgement to assess the quotes and the execution factors are considered as a fundamental part of the process to determine the counterparty or execution venue which will best serve the client's interests. When evaluating different counterparties Northern Trust takes into account a number of criteria including their market share, tenure in the market and breadth of market coverage, their ability to manage complex orders, their recent performance on other orders, any specialisations, the speed of execution and responsiveness and their credit worthiness.

LPFI's duty of best execution would be modified by any specific client instructions concerning the execution of an order to be made on behalf of a client. LPFI does not expect to accept such specific instructions, but if it did, it would execute the order according to the specific instruction. This may prevent LPFI from adhering to this policy to obtaining the best possible result for the execution of orders in respect of the elements covered by such instructions.

AGGREGATION AND ALLOCATION

LPFI will endeavour to aggregate multiple orders for the same security, with the same order objectives, so that it can send a block trade to market for execution where LPFI believes that it is in the best interests of all clients involved. LPFI's Aggregation and Allocation Policy describes this in more detail and also describes the limited circumstances in which orders would not be allocated to a client.

¹NT confirmed that the ability to trade OTC is an important fall-back mechanism for equity trading, and absolutely essential for trading fixed income, but in practical terms, a purely over-the-counter transaction outside of a regulated market or MTF is now relatively rare. NT's approach is described in section B. c) of the NT EMEA Order Execution Policy under the heading 'MiFID II Trading obligation for shares' on page 20: <https://cdn.northerntrust.com/pws/nt/documents/legal/mifid/nt-order-execution-policy.pdf>

DATA PUBLICATION

Compliant with its obligations under MiFID II, LPFI will publish, in respect of each class of financial instruments, information on the different execution venues where LPFI executes its client orders. LPFI publishes the top five brokers (execution venues) in terms of trading volumes for all executed client orders per class of financial instruments on its website (for downloading by the public), on an annual basis. The publication will contain the information required by the relevant rules and be available by 30 April in each year in respect of the period 1 January to 31 December of the preceding year.

As the principal broker of LPFI's equity trading activity, Northern Trust has undertaken to provide LPFI with a summary of such information, together with a summary of the quality of execution obtained on all venues and from all entities in the preceding year.

MONITORING

The overall effectiveness of LPFI's order execution arrangements, and the execution quality obtained, is monitored on an ongoing basis, compliant with LPFI's regulatory obligations on best execution. This includes an assessment of LPFI's adherence to policy and its regulatory obligations. Demonstrating best execution does not necessarily involve a transaction-by-transaction analysis but can involve an assessment of a record of transactions over a period, indicating that overall, the best result has been achieved. Through a combination of systematic testing, sample analysis and Transaction Cost Analysis, LPFI seeks to identify any trends or outliers against relevant benchmarks (e.g. implementation shortfall (absolute and versus pre-trade estimate) and interval volume weighted average price) and react accordingly based on the information content of LPFI's analysis, to correct any deficiencies it identifies.

LPFI is responsible for carrying out an ongoing assessment of its arrangement with Northern Trust, and how it enables LPFI to achieve best execution for its clients. LPFI evaluates the effectiveness of Northern Trust's order execution arrangements, (e.g. by reviewing its adherence to its own order execution policy and the effectiveness of the algorithm), as well as the execution quality these deliver for LPFI. If LPFI believes that its relationship with Northern Trust no longer enables it to deliver best execution for its clients, LPFI will consider how best to adapt its approach to trading accordingly.

Bloomberg provides LPFI with detailed execution data from which transaction cost analysis in relation to fixed income trades can be carried out. In order to analyse the execution data, LPFI maintains and reviews an audit trail of competing quotes (which are automatically captured on Bloomberg TSOX) to verify that brokers have provided the best possible result for the clients.

COMMUNICATION TO CLIENTS

This policy, as may be updated from time to time, shall be available to LPFI's clients via its website at www.lpf.org.uk/investment. A copy of this policy is provided to LPFI's clients prior to the launch of any investment management services and such clients are asked to consent to the terms of this policy. As part of that process, LPFI has informed clients that in certain circumstances orders may be executed outside of a regulated trading venue. Where this is the case LPFI will obtain prior consent from the client, in either the form of a general agreement or in respect of an individual transaction. LPFI will

inform clients of any material changes to the policy and upon request, LPFI will provide further explanation about it and its order execution arrangements to clients.

REVIEWING THIS POLICY

The policy is formally reviewed on an annual basis. The purpose of the review is to carry out an overall assessment of whether this policy and LPFI's order execution arrangements enable LPFI to take all sufficient steps to obtain the best possible result for the execution of orders made on behalf of a client. Modifications to this policy could occur as a direct result of the review or as a consequence of a material change in LPFI's dealing arrangements or regulatory obligations. LPFI will inform clients of any such modifications when they occur.