



Order Execution Policy

May 2025

Summary of Key Requirements

This policy outlines the key requirements which must be undertaken by Portfolio Managers (both in the capacity as Portfolio Manager, and Dealers), Outsourced Dealing Partners and the Risk and Compliance team to ensure that the best possible dealing outcomes are achieved when executing transactions on behalf of LPF and LPFI clients. This includes details on

- Order Execution Factors
- Portfolio Characteristics
- Trading Venues
- Approved Counterparties
- Order Handling, Aggregation and Allocation
- Cross Trades

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1. Context

The LPF Group manages a diverse range of assets across multiple portfolios on behalf of several Local Government Pension Schemes. As part of the management of these portfolios, the LPF Group executes transactions for both LPF accounts, and clients through LPFI and there is a regulatory requirement to document how those transactions are executed.

2. Purpose

This document summarises LPFI's approach to executing orders on behalf of clients.

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. As an authorised investment manager, LPFI is subject to the rules and requirements imposed by COBS 11, which are the FCA's Conduct of Business rules that apply to the firm's dealing and managing activities.

When placing orders on behalf of clients, LPFI must act in the client's best interests. Best Execution requirements place responsibility on LPFI to take all sufficient steps to achieve the best possible result for its clients, taking into account the execution factors outlined in this policy.

3. Scope

This policy applies to financial instruments traded for Equity and Fixed Income mandates managed by LPF and LPFI, including Foreign Exchange ("FX") transactions. For the avoidance of doubt, the policy does not apply to private market investments, or direct property.

All of LPFI's clients are categorised as 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 receipt 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:

- **Direct Execution:** where LPFI executes a transaction directly with an execution venue. For example, when LPFI buys or sells bonds to a broker; and
- **Indirect Execution:** where LPFI passes a transaction to a broker to manage the execution process. For example, where the broker acts as agent in the transaction.

4. Key Definitions

Approved Counterparty List: List of brokers and other counterparties approved for executing client trades.

Best Execution: To obtain the best possible result when executing trades for clients, considering a number of execution factors.

Employee: All employees (including when on Leave from LPF), contractors and temporary members of staff (e.g. Secondees or Interns)

Execution Venue or Venue: an entity that provides a marketplace, 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.

Execution Oversight Group (“EOG”): the group responsible for overseeing order execution and alignment to this policy. The group has a formal Terms of Reference and meets on a regular basis with representation from across the business.

LPF Group: The group comprising of the following entities.

- Lothian Pension Fund (“LPF”) acting through its administering authority, the City of Edinburgh Council
- Scottish Homes Pension Fund acting through its administering authority, the City of Edinburgh Council
- LPFI

Multilateral Trading Facility (“MTF”): a trading system that facilitates the exchange of financial instruments between multiple parties, normally operated by market operators and investment banks.

Portfolio Risk Basis (for Allocations): the method of allocating aggregated trades with the primary intention of aligning the portfolio risk characteristics of the mandates involved in the trade.

Pro-Rata Basis (for Allocations): the method of allocating aggregated trades in line in the same proportions as the original order.

5. Policy Principles

When executing orders, LPFI will take all sufficient steps to obtain the best available terms on an overall basis.

LPFI is obliged to seek “best execution” when executing client trades. This means that LPFI must seek to seek to achieve the best possible result when executing transactions on behalf of clients, in line with the Order Execution Factors and Criteria outlined within this policy.

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.

6. Delivering Best Execution

The primary responsibility for achieving best execution lies with the Investment Team. Delivery of best execution encompasses many factors that need to be considered relative to the characteristics of an order and market in which it is being traded. The main factors which are considered when executing orders are:

- **Price** (*the price of the security being traded*);

- size and nature of the order;
- liquidity profile;
- costs (implicit and explicit);
- prevention of information leakage;
- market depth and liquidity;
- speed;
- likelihood of execution and settlement; and
- any other considerations relative to the execution of the order, to the extent that it can reasonably be expected to influence the total outcome of the trade.

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

- characteristics of the client (noting that all LPFI's current clients are, or have elected to be treated as, 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;
- the nature of the 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 always change.

Regulatory requirements outline that achieving best execution does not demand that firms achieve the best possible result with every trade. LPFI focuses on taking all sufficient steps for obtaining the best possible result on a consistent basis.

LPFI may use one or more of the following venue types when executing orders:

- **Brokerage firms:** who transact on behalf of LPFI's clients on Regulated Markets, through their own MTF, or as a Systematic Internaliser;
- **Multilateral Trading Facilities** (or MTFs) where trades can be executed away from the exchanges' order books;
- **Trading via Electronic or Voice based Communications:** with a counterparty through recorded telecommunications mediums, such as phone calls or information message services such as Bloomberg or Email.

LPFI will not receive remuneration, discount or non-monetary benefit for routing orders to a particular execution venue.

6.1 Trading Venues

LPFI will transact on venues that have adequate systems and controls in place to enable the delivery of best execution.

In selecting the most appropriate venue for the purposes of executing client orders, LPFI will consider the various factors which it believes are relevant to the order. The main factors that LPFI will take into consideration include, but are not limited to:

- **Venue Liquidity** (*based on historic trading volumes, and other information, to assess the likelihood of execution on that venue*);
- **Venue Toxicity** (*the likelihood that routing to, or executing on, a particular venue, will impart too much information about the size or balance of the order*);
- **Order Matching Logic** (*different venues match orders using differing logic and LPFI will seek to choose the venue with the most suitable logic for each execution*);
- **Infrastructure** (*orders will only be routed to venues which have the infrastructure to manage the complexity of the order*);
- **Control of information flow** (*venues must ensure that unexecuted order information is appropriately protected*);
- **Access to data** (*data on trade and price formation must be available on a fair and equitable basis, at a fair cost*);
- **Fees and charges** (*venues should not charge excessive fees to transact, nor should they offer inducements to trade*); and
- **Any other factors** deemed relevant by LPFI.

6.2 Approved Counterparties

Depending on the asset class, LPFI operates a process for the selection of brokers with whom orders are placed for execution. LPFI maintains an Approved Counterparty List which details the list of counterparties with whom LPFI is permitted to execute trades, and this list is formally owned by the EOG.

The purpose of this list is to ensure that LPFI has suitable control and sufficient liquidity available to execute trades, relative to the size, nature and complexity of LPFI's trading activities and anticipated order flow.

LPFI expects that counterparties' execution arrangements enable them to comply with the obligations that LPFI requires them to fulfil.

LPFI's approach is to approve counterparties who it believes will assist LPFI in complying with Best Execution obligations. Where LPFI places an order for execution by an approved counterparty, LPFI is not responsible for controlling or influencing the arrangements made by that counterparty relating to the execution of that order (i.e. LPFI does not control the counterparty's choice of execution venue).

6.2.1 Changes to the Approved Counterparty List

Brokers and other counterparties must be assessed and approved by the Chief Investment Officer before use and LPFI will generally only transact client orders with brokers and counterparties on the Approved Counterparty List.

Any other changes to the approved counterparty list, such as removals, must be approved by the EOG.

6.2.2 Assessment Criteria

The criteria to add a broker to the Approved Counterparty List is generally based on a number of factors, including, but not limited to:

- Pricing capability;
- Liquidity provision;
- Operational capability;
- Service quality;
- Financial stability / Credit Rating;
- Reputation, including regulatory status and history;
- Financial crime (anti-bribery and corruption and sanctions); and
- Any other factors deemed relevant by LPFI.

6.2.3 Regular Review

Counterparty performance is regularly reviewed, and the Approved Counterparty List is formally reviewed by the EOG annually, although changes can be made at any time.

6.3 Single Venue Transactions

In some cases or for some instruments, one venue, agent and/or counterparty may be appropriate for execution (and the only option available). Examples include where execution speed, certainty and/or market impact are judged to be more important.

In some instances, obtaining multiple quotes may have a negative impact on obtaining the best possible result.

For single venue, agent or counterparty transactions, LPFI will check the fairness of the price proposed by gathering market data relevant to the estimation of such a price and, if possible, comparing to similar assets.

7. Approach to Executing Orders

LPFI's approach to executing orders varies by asset class. The specific considerations for each asset class are outlined below.

7.1.1 Equities and Equity-like instruments such as Exchange Traded Funds

LPFI does not have internal expertise, specialist staff or systems dedicated to trade execution for Equities and currently outsources trade execution for Equities to 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.

The delegation arrangement provides LPFI with a comprehensive dealing desk function which operates globally and facilitates 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, considering 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.

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.

As a result of this outsourcing arrangement, and Northern Trust's own requirements to maintain an Order Execution Policy and their duty of best execution towards LPF Group, the content of some sections of this policy will be undertaken by Northern Trust on LPFI's behalf.

7.1.2 Fixed Income and Money Market Instruments

LPFI is responsible for order execution for sovereign debt instruments and has full discretion over the choice of execution venue.

LPFI uses its judgement and available market information to direct orders to the most appropriate approved brokers, considering 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 uses the electronic trading platform Bloomberg TSOX as an MTF to execute orders. This facilitates LPFI's access to approved brokers and supports LPFI's adherence to its trading protocols. LPFI also uses Bloomberg's VCON (voice trade confirmation system) or instant messenger service to execute orders, for when example when dealing new issues in primary markets.

7.1.3 Foreign Exchange

LPFI is responsible for order execution for spot and forward foreign exchange ('FX') 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, or as a market order, intended to support LPFI's best execution.

In addition to executing regular currency trades algorithmically, NTC may execute certain restricted currencies as market orders.

8. Order Handling, Aggregation and Allocation

LPFI will ensure that orders are executed promptly and fairly, in line with the execution factors outlined within this policy.

Where LPFI has orders which share the same order objectives, LPFI will generally look to aggregate multiple orders for the same security, 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, though LPFI will not do this if it is believed that it would disadvantage clients on an overall basis. A particular aggregation may however subsequently advantage or disadvantage an individual client.

LPFI's Aggregation and Allocation Policy is detailed in Appendix A and describes this in more detail and also describes the limited circumstances in which orders would not be allocated to a client.

9. Monitoring and Oversight

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 and involves people with appropriate levels of expertise, drawn from across the LPF Group.

The methods employed in undertaking this oversight vary according to asset class.

10. Best Execution Framework Document

Details on the operational elements of this policy, and the Terms of Reference for the EOG, can be found within the Best Execution Framework document.

Appendix A – Order Aggregation and Allocation Policy

The aggregation and allocation of client orders must be implemented in a manner which is fair and equitable to all clients.

A1. Preferential Treatment of Orders

At no time will allocations of trades be permitted on preferential grounds. Examples of Preferential Treatment may include, but are not limited to:

- Fee Basis
- Remuneration
- Client / Account size or importance

For the avoidance of doubt, no preferential treatment will be afforded to orders originating from LPF or LPFI.

A2. Aggregation

When carrying out its discretionary investment management activities, LPFI may make single investment decisions on behalf of multiple clients. LPF may make the same investment decision, and LPFI would be instructed to transmit an order on behalf of LPF. In these circumstances, LPFI will aggregate multiple orders for the same security, with the same order objectives, so that it can send a block trade for execution where LPFI believes that it is in the best interests of all clients involved.

Where orders are aggregated with other client orders, these orders will be allocated in a fair and reasonable basis. Aggregation of orders is common practice and should provide LPFI opportunity to return a consistent and fair execution.

A3. Post-trade Allocation

Executed aggregated orders will be allocated among the LPF and client portfolios on a fair and reasonable basis using the traded price, and in accordance with the orders originally allocated pre-trading.

In Equity mandates, allocations will typically be made on a pro-rata basis, in line with the original size of the order, ensuring that each participant receives the same average price for the execution.

In Fixed Income mandates, allocations will either be made on a pro-rata basis, in line with the original order size for each portfolio as outlined above, or on a portfolio risk basis.

Where trading is carried out by a third-party, LPFI will instruct that party to ensure that these conditions are applied.

LPFI may deviate from these allocation principles if it justifiably believes that, in doing so, the mandates would not realise the expected benefits of aggregation. In such circumstances, the relevant Portfolio Manager will be required to seek prior written approval from the CIO and a representative of the Risk and Compliance team, by submitting a detailed explanation of the rationale for the deviation.

A4. Defensible Investment Grounds

In some circumstances, it is not possible to allocate an executed trade on a pro-rata, or portfolio risk basis. This could be as a result of, for example,

- Client imposed investment restrictions;
- Portfolio characteristics, such as risk / return profile;
- Market lot sizes;
- Operational restrictions in certain markets; or
- Economic viability of the order.

Where this occurs, the Portfolio Manager must ensure that each account is treated fairly based on the individual circumstances of the order.

Where necessary, allocations to individual accounts may be rounded up or down to conform to marketable size constraints.

Orders would not be allocated to a client if it would be uneconomic or prohibitive, from a dealing cost point of view, for the client. An allocation would be regarded as uneconomic or prohibitive if the administrative cost of the transaction was disproportionate to the value of the stock allocated. All allocations should be made on a timely basis.

A5. Record Keeping

LPFI shall maintain a record of allocations by client and shall update the records where there is a reallocation.

Appendix B – Cross Trade Policy

At all times, LPFI must act professionally and in accordance with the best interest of all clients, and fulfil obligations in relation to Best Execution. The purpose of this policy is to set out LPFI's approach to cross trades.

B1. Cross Trade Definition

A cross trade is where there is a change in ownership of a financial instrument, either in part or in full, between two or more accounts managed by LPF Group. Where a cross trade is undertaken, the order placement and execution must be fair to all accounts involved.

There are a variety of reasons which may result in cross trades being required, but the most common reasons are in relation to cash flow or different investment guidelines. Regardless of the underlying reason, all cross trades must be recorded and have a clear rationale.

B2. Cross Trade Considerations

Cross trades should only be undertaken where:

- the purchase and sale decisions are in the best interests of all accounts involved;
- the resultant positions are in line with the investment objectives and restrictions of all accounts involved;
- the reason for the trades is documented; and
- the trades are executed on an "arm's length" basis at prevailing market value.

Cross trades should not be undertaken if they are prohibited within any client agreement or regulation.

All cross trades should be notified to the Chief Investment Officer and Chief Risk Officer (or delegate) prior to execution.

B3. Cross Trade Executions

The standard approach for all cross trades, regardless of asset class, is to transact through an approved broker or counterparty (for Fixed Income) or via third-party dealing arrangements (for Equities). All cross trades should be undertaken at a market-driven price which is equitable to all parties.

Unless in exceptional circumstances, cross trades should not be "crossed internally". This approach ensures adequate segregation of duties, sufficient transparency and an audit trail.

Where a residual balance exists on the buy or sell side of the order following the completion of the cross trade, this should be worked in the market as normal as a separate order.

B3.1 – Equities

The general approach for Equity cross trades will be to instruct Northern Trust to execute the trades at a market-driven neutral benchmark price, such as mid-price or VWAP, unless a rationale exists to use an alternative price benchmark which would be fairer to all accounts involved.

As an example, alternative pricing methodologies (such as the previous day's close, or last traded price) may be more appropriate when trading in illiquid securities, or in securities where the bid-offer spread is abnormally wide.

B3.2 – Fixed Income

The general approach for Fixed Income cross trades will be to obtain at least 2 independent broker quotes to verify an appropriate price level at which the transactions can be undertaken, such as a closing price obtained by the Custodian

B4. Record Keeping

Investment teams instructing cross trades must maintain clear records of all cross trade transactions undertaken, which includes the rationale for undertaking the cross. Records should be maintained for at least 7 years.

Document Control Table

The following formatting should be used for the document control tables, which should be placed at the end of the document. The document control should be as brief as possible

Approved by	Emmanuel Bocquet, Chief Investment Officer
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Owner	Al Smith, Senior Investment Risk & Compliance Manager
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