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# ORDER EXECUTION POLICY

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## 1 General Information about this Policy

### 1.1 Background

CLSA Limited and in certain circumstances, CSI Global Markets Limited ("**CSIGM**"), the entity engaging in primarily fixed income and currency instruments ("**FICC**") products (collectively "**CLSA**") provides general broker dealer and other ancillary services to its clients. It is authorised and regulated by the Securities and Futures Commission of Hong Kong (the "**SFC**") and is a licenced corporation ("**LC**") subject to the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ("**Code of Conduct**").

The Code of Conduct requires that a licensed or registered person has in place arrangements to obtain the best available terms when executing client orders.

CLSA executes orders in relation to financial instruments on behalf of its clients. There are two methods that it can use to execute those orders.

First, CLSA can execute the relevant transaction on behalf of the client directly with a counterparty [(which could include an affiliate)] or on an exchange or other trading system (e.g., by dealing directly with a market maker on a "request for quote" "**RFQ**") basis). The counterparty, exchange or trading system with which CLSA chooses to execute such a transaction is referred to in this policy as an "**Execution Venue**". An Execution Venue can include a regulated market, an Alternative Liquidity Pool, a market maker or other liquidity provider or non-Hong Kong entity performing similar functions to the Execution Venues listed above.

Secondly, CLSA can place an order as agent with a third party (e.g., another broker or investment bank) and/or any of its affiliates for that third party or affiliate to execute on behalf of the client. Such entities are referred to in this policy as "**Brokers**".

Outside of the Hong Kong market, CLSA will generally execute orders on behalf of its clients with third party Execution Venues or Brokers by dealing as agent for its clients. In relation to FICC products CSIGM will generally act as principal.

### 1.2 CLSA's Core Best Execution Obligations

In accordance with the Code of Conduct, as detailed in the Report on the Thematic Review of Best Execution dated 30 January 2018, CLSA is required to deliver best execution which is fundamental to market integrity and the protection of investors who rely on LCs to act in their best interests during the execution process.

In seeking to obtain best execution, CLSA is required to apply the following standards:

**(A) Governance and management supervision**

- 1) Sufficient management oversight should be in place to ensure that trade exceptions and other matters related to best execution are brought to management's attention for timely review.
- 2) Policies and procedures regarding best execution should be established to cover different types of financial instruments, including both listed and over-the-counter (OTC) products, and should be reviewed and updated on a regular basis.
- 3) At a minimum, these policies and procedures should address the following areas:
  - factors to be considered in delivering best execution;
  - applicability of best execution and carve outs;
  - monitoring and control mechanisms to review execution quality of trades; and
  - the respective roles of the operational and control functions in ensuring best execution.
- 4) Where applicable, these policies and procedures should also address:
  - handling clients' orders in cases where multiple quotes exist and where pricing information is insufficient or quotes are absent; and
  - disclosure to clients of best execution arrangements including carve outs and the exclusive use of affiliates, connected parties and third parties.
- 5) All relevant staff should be provided with periodic training on best execution as well as updates on internal policies and regulatory and technological developments.

**(B) Best execution factors**

- 1) Sufficient steps should be taken to obtain the best available terms when executing client orders, taking into account price, cost, speed of execution, likelihood of execution, speed of settlement, likelihood of settlement, size and nature of the order and any other relevant considerations.
- 2) The relative importance of each best execution factor may vary from case to case and best execution of certain types of instructions should be assessed against multiple factors. Where a client has given specific instructions which cover one part or aspect of an order, this should not be treated as releasing LCs from their best execution obligations for other parts or aspects of the order.

**(C) Applicability of best execution**

- 1) When LCs enter into agency or back-to-back principal transactions with clients, the obligation to deliver best execution remains with LCs where clients rely on LCs to protect their interests in order execution.
- 2) When LCs enter into principal transactions with clients, other than those which are back-to-back in nature, LCs should carry out their own assessments to determine whether clients are relying on LCs to protect their interests, and whether the best execution obligation is owed, before applying any carve outs.

**(D) Responsibilities of execution staff**

- 1) Execution staff and their supervisors form an important first line of defence in the trade execution process. Reasonable diligence should be demonstrated in handling client instructions, monitoring execution outcomes and, where applicable, taking steps to obtain multiple quotes. In the absence of multiple quotes, execution staff should obtain sufficient pricing information on a best-effort basis to validate quotes provided to clients.

**(E) Controls and monitoring**

- 1) Controls and monitoring carried out by second and third lines of defence, such as compliance and internal audit functions, should be in place to review the quality of execution and to detect and address anomalies. Based on the characteristics of different financial instruments and the complexity and scale of the LCs operations, it should determine appropriate metrics and reference benchmarks to assess execution quality.

**(F) Arrangements with affiliates, connected parties and third parties**

- 1) Due diligence should be carried out on affiliates, connected parties or third parties engaged for execution, and a systematic process should be in place to continuously monitor execution outcomes. LCs should take action to ensure that execution arrangements with affiliates, connected parties and third parties do not undermine the delivery of best execution. Regardless of whether orders are executed through affiliates, connected parties or third parties, the obligation to deliver best execution remains with LCs.

## 2 **The Execution Policy**

2.1 This is the policy referred to above which is required by the SFC Code of Conduct.

2.2 All CLSA employees who are responsible for the execution of transactions on behalf of clients must ensure that any such activities are conducted in accordance with the requirements and guidance set out in this Policy.

### 2.3 **Application of best execution and carve outs**

2.4 The best execution obligation will exist when CLSA:

- (A) Enters into an agency or back-to-back principal transaction with clients where clients rely on CLSA to protect their interested in order execution;
- (B) Arranges transactions, including passing the order or acting as manager and placing the order to a broker or affiliate for execution; or
- (C) Provides a quote in response to a RFQ where the client is legitimately relying on CLSA to obtain the best available terms. In this regard, the following four factors will be weighed to determine whether the client is legitimately relying on CLSA to obtain the best possible result:
  - i) whether the client initiates the transaction or RFQ or vice versa - where for example CLSA approaches the client and suggests that the client enters into a transaction, it is more likely that the client will be placing reliance on us and where the client initiates the transaction it is less likely that the client will be placing reliance on CLSA);
  - ii) the market practice for the product and the existence of a convention for the client to "shop around" – where the practice in the market in which a business area operates suggests the client take responsibility for the pricing and other elements of a transaction (e.g. there is a market convention to "shop around" for a quote) it is likely that the client will be placing reliance on CLSA;
  - iii) the levels of price transparency within the relevant market – where CLSA has ready access to prices in the market in which it operates but the client does not, it is more likely that the client will be placing reliance on CLSA and where if CLSA's access to pricing transparency is equal or similar or to yours, it is likes likely that the client will be placing reliance on CLSA; and
  - iv) the information provided by CLSA to the client about its services and any other existing agreement between CLSA and the client that may be relevant.

2.5 This best execution obligation will exist irrespective of the financial instrument being executed where the client is legitimately relying upon CLSA to obtain the best possible result.

- 2.6 When executing a complex product, typically instruments comprised of more than one component, CLSA will seek to obtain the best possible result in respect of the overall product.
- 2.7 This policy will not apply to the extent that CLSA:
- (A) Follows specific instructions from a client when executing client orders whereby CLSA will execute in accordance with those instructions. **Clients should be aware that following specific client instructions may prevent CLSA from taking steps it has designed and implemented in this Policy to obtain the best possible execution result for those orders.** Where a client's specific instructions only relate to part of an order, this policy will apply to those aspects of the order not covered by the specific instructions. CLSA may be in receipt of specific instructions from clients where it receives orders from clients via a direct market access system which specify the Execution Venue on which such orders are to be executed;
  - (B) Only provides prices to its clients at which it would be willing to buy or sell (without dealing); or
  - (C) Deals with its clients on purely on a client initiated RFQ basis where the client is not legitimately relying upon CLSA to obtain the best possible result on their behalf.
- 2.8 Factors to be considered in delivering best execution**
- 2.9 In relation to FICC products where CLSA primarily operates on a purely RFQ basis, clients are generally requesting for quotes from a number of different dealers in the markets where the nature of these markets is that clients will have transparency and choice of the prices for which these transactions are effected. In such cases, clients are not legitimately relying on CLSA in relation to the execution of transaction.
- 2.10 Notwithstanding the above however, where a fixed income client (e.g. High Net Worth) is relying on CLSA to work a specific order, CLSA will, subject to specific instructions from the client, provide a quote that meets CLSA's obligation to take all sufficient steps to obtain the best possible result for its client. In the absence of multiple quotes, execution staff would obtain sufficient pricing information on a best-effort basis to validate quotes provided to clients.
- 2.11 CLSA may use one or more of the types of Execution Venue as set out in Annex 1.
- 2.12 CLSA may execute orders on behalf of clients directly on exchanges or regulated Alternative Liquidity Pools (which could include itself or its affiliates).
- 2.13 Schedule 1 to this policy lists the particular Brokers and Execution Venues used by CLSA to execute orders.
- 2.14 In choosing the Brokers that appear in Schedule 1, CLSA has taken care to select those Brokers that, in CLSA's view, consistently provide a high quality execution service, taking account of the relevant execution factors for the relevant

instrument class. In general CLSA will select affiliates as Brokers where possible. When it is not possible to select an affiliate, CLSA will enter into arrangements with Brokers based upon cost, their ability to execute independently, their market reputation, their technology and their competitive positioning.

- 2.15 In choosing the Execution Venues that appear in Schedule 1, CLSA has taken care to select those Execution Venues that, in CLSA's view, enable it to obtain on a consistent basis the best possible results for its clients. The selection process takes into account such factors as price, accessible liquidity, integrity of marketplace and price formation. CLSA may use direct market access facilities (e.g., trading systems provided by its Brokers that allow it to transact (in the Broker's name) directly on a regulated market) to effect the execution of trades on behalf of its clients.
- 2.16 CLSA will determine whether to place an order with a Broker or to execute an order directly on an Execution Venue according to the nature of the order and the market in which the relevant order is to be executed. In certain markets, it will only be possible to execute client orders by placing them with a Broker in the relevant market.
- 2.17 CLSA employees would not directly execute orders with an Execution Venue or place orders with a Broker that is not listed in Schedule 1 to this policy unless there are exceptional circumstances. Exceptional circumstances might include where CLSA wishes to trade in an unusual financial instrument that cannot be executed with or by one of the Execution Venues or Brokers already listed (either at all or in a manner that would be likely to achieve the best possible result for the client). Any execution of a transaction with an Execution Venue or placing of an order with a Broker that falls outside the list of Execution Venues and Brokers must be reviewed by CLSA's Best Execution Committee. CLSA's procedures for assessing new Brokers and Execution Venues include a requirement for them to be assessed in terms of their ability to enable CLSA to comply with its obligations under this policy and to be included within Schedule 1 before trading with, or on, them can commence.
- 2.18 Each order is reviewed by a one or many staff members who will evaluate the order in the context of the execution factors, and trade directly as appropriate or transmit the order to a Broker with specific trading instructions.
- 2.19 CLSA or its Broker will take into account the following range of execution factors:

- (A) price;
  - (B) speed;
  - (C) likelihood of execution;
  - (D) speed and likelihood of settlement;
  - (E) size;
  - (F) costs;
  - (G) nature of the order; and
  - (H) any other relevant execution factor.
- 2.20 However, various execution factors may be more or less important in certain circumstances, and the prioritisation will be subject to any specific instructions CLSA receives from the client.
- 2.21 As described in paragraphs 2.4 (C) and 2.9 above, in respect of FICC activity, CLSA generally operates on an RFQ basis. Best execution will only apply where the client is legitimately relying upon CLSA to obtain the best possible result for the client. However, in circumstances where a Fixed Income client is legitimately relying on CLSA to obtain the best possible result, the execution factors detailed in 2.19 above will be taken into account.
- 2.22 The trader may consult the client to discuss the trade execution strategy which may involve discussing various execution factors. Information provided by the client may impact the execution strategy CLSA uses. CLSA's strategy may include executing orders immediately or working orders over a period of time.
- 2.23 In relation to an order, an Execution Venue or Broker will be selected as is appropriate in view of the size and nature of the relevant order. CLSA will select Execution Venues and Brokers based on their track records of achieving the best result in terms of the execution factors taking into account, in particular, the geographic and market coverage of the relevant Execution Venue or Broker.
- 2.24 When executing orders or using a Broker to deal in financial instruments over-the-counter, CLSA will check that the price quoted is fair by taking into account market data, including comparing that price with similar instruments (where available).
- 2.25 When executing orders using a third party or affiliated Broker, CLSA is responsible for taking adequate steps to ensure that the Broker receives sufficient information to ensure that the executing Broker is able to satisfy CLSA's obligation to obtain the best possible result for its clients.
- 2.26 There may be counterparty risk when executing an order outside a trading venue. On request by the client, CLSA can provide additional information about the potential impact on the execution of orders when executing over-the-counter.
- 2.27 When a client chooses to execute an order using CLSA's electronic trading systems it is usual for the clients to select adequate parameters for the trade to be executed and in these situations CLSA will consider that it has met its obligations to deliver the best possible outcome for the client.

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**2.28 Handling client orders where multiple quotes exist or where pricing information is limited**

2.29 In cases where multiple quotes exist CLSA will generally select based upon best available price though other factors, such as liquidity, market signalling etc. will be taken into consideration which may result in the less favourable price being selected. Execution staff will also ensure the traded price and the next best available quotes obtained are inputted into the system.

2.30 In cases where pricing information is insufficient or quotes are absent CLSA will act in what it generally believes be in the best interest of clients. Where these situations arise, CLSA will where possible inform the client.

**2.31 Aggregation of orders**

2.32 CLSA may aggregate a client order with other client orders where it is unlikely that the aggregation process will disadvantage any of the individual client orders. In doing so we reasonably believe that this is in the client's overall best interests even though aggregation may result in a client obtaining a less favourable price. Where we aggregate client orders allocation of the executions may be done within such time as considered reasonable having regard to market practice after the order has been filled. Where feasible, the fact that a client order is being aggregated will be disclosed to the client, thereby giving the client the opportunity to instruct that their order is not aggregated.

2.33 CLSA will not aggregate a client order with a principal order.

**2.34 Monitoring and Control mechanisms**

2.35 CLSA has an obligation to monitor the effectiveness of its order execution arrangements and this policy. This obligation has been incorporated into CLSA's general compliance monitoring process and business procedures and policies.

2.36 CLSA assesses, on a regular basis, whether the execution venues listed in Schedule 1 provide the best possible result for clients or whether it needs to make changes to its execution arrangements. The assessment takes into account the information on execution quality distributed by execution venues and brokers where available.

2.37 CLSA conducts regular reviews and post trade checking through random sampling of transactions to ascertain whether the best possible result was obtained in respect of those transactions.

2.38 The performance of electronic trading algorithms against the intended benchmarks (where applicable) is ongoing and prompts a continual enhancement cycle and a feedback loop with users with respect to their usage of electronic trading tools.

## **2.39 Review of Policy**

2.40 At least annually, CLSA will review this policy and its execution arrangements. The review will focus on whether CLSA would obtain better results for its clients if it was to:

- (A) Include additional or different Execution Venues or Brokers;
- (B) Modify the process by which Execution Brokers and Venues are selected;
- (C) Modify any other aspects of this policy and/or its execution arrangements.

2.41 CLSA will also review this policy and/or its execution arrangements whenever a material change occurs that could affect its ability to obtain the best possible result for the execution of its clients' orders on a consistent basis.

2.42 CLSA will provide staff with periodic training on best execution as well as updates on internal policies and regulatory and technology developments.

## **2.43 Client Disclosure**

2.44 CLSA will provide its clients with appropriate information on this policy.

2.45 To the extent that CLSA makes any material changes to this policy, it will notify the changes to its clients by publishing an updated version of this policy on the company web-site.

## **2.46 Roles of the Operational and control functions**

2.47 CLSA has implemented a Best Execution Committee comprising of senior management which is responsible for overseeing best execution arrangements to protect clients' best interest, ensure fair treatment and to minimise conflict of interest.

2.48 Responsibility for monitoring day to day activities with respect to Best Execution lies with the relevant desk who will assess execution quality against appropriate metrics and reference benchmarks.

2.49 The compliance department samples transactions to review the quality of execution and detect and address anomalies.

2.50 The Internal Audit department will undertake periodic audits which may include a review of execution quality.

## Annex 1

### 1. Equities

This Instrument Class includes equities and depositary receipts. CLSA may use the following Brokers and Execution Venues in respect of transactions in financial instruments falling within this Instrument Class:

<u>Country</u>	<u>Brokers</u>	<u>Execution Brokers &amp; Execution Venues</u>
Australia	CLSA Australia Pty. Ltd.  CLSA Global Markets Pte Ltd.	Australian Securities Exchange Ltd, (ASX)  CHI-X Australia
China	CLSA Limited  CLSA Global Markets Pte Ltd.	Fortune CLSA Securities  CITIC Securities  Shanghai Stock Exchange (SSE)  Shenzhen Stock Exchange (SZSE)
Hong Kong S.A.R.	CLSA Limited  CLSA Global Markets Pte Ltd.	The Stock Exchange of Hong Kong Limited (HKEX)  CLSA Limited (Alternative Liquidity Pool)
India	CLSA India Private Limited  CLSA Global Markets Pte Ltd.	Bombay Stock Exchange Limited (BSE)  National Stock Exchange of India Ltd. (NSE)
Indonesia	CLSA Limited  CLSA Global Markets Pte Ltd.	PT CLSA Sekuritas Indonesia  Indonesia Stock Exchange (IDX)
Japan	CLSA Singapore Pte Ltd  CLSA Global Markets Pte Ltd.	CLSA Securities Japan Co., Ltd  SBI JAPANNEXT Co., Ltd.  CLSA Securities Japan Co., Ltd (Internal Crossing Engine).  Tokyo Stock Exchange, Inc. (TSE)

		Chi-X Japan
Korea	CLSA Securities Korea Ltd  CLSA Global Markets Pte Ltd.	Korea Exchange (KRX)
Malaysia	CLSA Limited  CLSA Global Markets Pte Ltd.	CLSA Securities Malaysia Sdn. Bhd  Bursa Malaysia Berhad (KLSE)
Philippines	CLSA Limited  CLSA Global Markets Pte Ltd.	The Philippine Stock Exchange, Inc. (PSE)
Singapore	CLSA Limited  CLSA Global Markets Pte Ltd.	CLSA Singapore Pte. Ltd.  Singapore Exchange Limited (SGX)
Taiwan	CL Securities Taiwan Co. Ltd.  CLSA Global Markets Pte Ltd.	Taiwan Stock Exchange Corporation (TWSE)
Thailand	CLSA Limited  CLSA Global Markets Pte Ltd.	CLSA Securities (Thailand) Ltd  The Stock Exchange of Thailand (SET)
USA	CLSA Americas LLC  CLSA Global Markets Pte Ltd.	New York Stock Exchange (NYSE)  National Association of Securities Dealers Automated Quotations (Nasdaq)  American Express (Amex)  New York Stock Exchange Market  New York Stock Exchange Archipelago Exchange (NYSE ARCA)  Investors Exchange (IEX)  BATS EDGA  BATS EDGX

		<p>BIDS</p> <p>Level Alternative Trading System (ATS)</p> <p>UBS Alternative Trading System (ATS)</p> <p>Deutsche Bank Super Cross (SuperX)</p> <p>Bank of America Merrill Lynch InstinctX (BAML InstinctX)</p> <p>Morgan Stanley Pool (MS Pool)</p> <p>Credit Suisse Crossfinder (CS Crossfinder)</p> <p>Goldman Sachs <b>Sigma</b> X (Goldman SigmaX)</p> <p>Barclays LX</p> <p>JP Morgan Cross</p> <p>Virtu Matchit (FKA KCG Matchit)</p> <p>Instinet Cross Border Xpress (Instinet CBX)</p> <p>Integrated Technology Group POSIT (ITG Posit)</p> <p>CrossStream (Fidelity Capital Markets crossing network)</p> <p>BlockCross (recently merged with Instinet)</p> <p>Liquidnet</p> <p>Coda Markets Automatic Trading Station – ATS (Parent company is PDQ enterprises)</p>
New Zealand	<p>CLSA Limited</p> <p>CLSA Global Markets Pte Ltd.</p>	<p>Craigs Investment Partners Limited</p> <p>NZX Limited (NZX)</p>
Bangladesh	<p>CLSA Limited.</p> <p>CLSA Global Markets Pte Ltd.</p>	<p>BRAC EPL Stock Brokerage Ltd.</p> <p>Lanka Bangla Securities Ltd.</p>

		Dhaka Stock Exchange Limited (DSE)
Sri Lanka	CLSA Limited.  CLSA Global Markets Pte Ltd.	John Kheells, Stockbroking  Colombo Stock Exchange (CSE)
Vietnam	CLSA Limited.  CLSA Global Markets Pte Ltd.	Saigon Securities (SSI)  Ho Chi Minh Securities (HCM)  Ho Chi Minh Stock Exchange (HOSE or HSX)  Hanoi Stock Exchange (HNX)
Pakistan	CLSA Limited.  CLSA Global Markets Pte Ltd.	BMA Capital  Alfalah Securities  Intermarket Securities (IMS)  Arif Habib Limited  Pakistan Stock Exchange Limited (PSX)
Other Global Markets ADx	CLSA Global Markets Pte Ltd.  ITG Europe Limited.  Kepler Cheuvreux	The Egyptian Exchange (CAI), Boursa Kuwait (KUW), Bourse De Valeurs Casa blanca (CAS), Muscat Stock Exchange (MUS), Doha Securities Market (DSM), Abu Dhabi Securities Exchange (ADX) Dubai Financial Market (DBX), NASDAQ Dubai (DIF), Vienna Exchange (Xetra) (VIE), Euronext – Brussels (ENB), Cyprus Stock Exchange (CYS), Euronext – Amsterdam (PRA), Copenhagen Stock Exchange(CPH),

		Helsinki Stock Exchange (HEL), Euronext – Paris (ENX), German exchange (Xetra) (GER), Athens Stock Exchange (ATH), Budapest Stock Exchange (BUD), Irish exchange (Xetra) (ISE), Tel Aviv Stock Exchange (TLV), Milan Stock Exchange (MIL), Euronext – Amsterdam (ENA), Oslo Stock Exchange (OSL), Warsaw Stock Exchange (WSE), Euronext – Lisbon (ENL), Bucharest Stock Exchange (BUH), Johannesburg Stock Exchange (JNB), Sistema De Interconexion Bursatil Espanol (MAD), Stockholm Stock Exchange (STO), Swiss Exchange (SWX), SWX Europe (VTX), Istanbul Stock Exchange (IST), BATS Europe(BTE), Chi-X Stock Exchange (CIX), London Stock Exchange (LSE), Turquoise Exchange (TRQ), Equiduct Exchange (EQD), Bulgarian Stock Exchange (BLG), Zagreb Stock Exchange (ZAG),
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		<p>Tallinn Stock Exchange (TLX),</p> <p>Euronext - NYSE Arca Europe (NAE),</p> <p>Sao Paulo Stock Exchange – B3 (SAO)</p> <p>Ljubljana Stock Exchange (LJU),</p> <p>Nordic Growth Market Exchange (NGM),</p> <p>PLUS Markets (PLS),</p> <p>Luxembourg Stock Exchange (BIL)</p>
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The vast majority of equities transactions would be effected by executing through a Broker in the market to which the relevant order relates.

**2. Bonds** This instrument class includes all bonds including but not limited to treasury bonds, corporate bonds, sovereign and quasi sovereign bonds and currency bonds. In respect of transactions in instruments falling within this instrument class, CLSA, through CSIGM will generally be acting in principal capacity. CLSA Limited could also provide broker dealing and other ancillary services as an agent in certain circumstances.

<u>Venues</u>	<u>Other</u>
MarketAxess MTF	OTC voice trades
Bloomberg MTF	
SGX	
Tradeweb	

### 3. Money market instruments

This instrument class includes certificates of deposit. In respect of transactions in instruments falling within this instrument class, CLSA will act in a principal capacity.

<u>Venues</u>	<u>Other</u>
MarketAxess MTF	OTC voice trades
Bloomberg MTF	
SGX	
Tradeweb	