Best Execution and Client Order Handling & Allocation Policy

Kestrel Partners LLP ("Kestrel") – Small Cap Equity ("SCE") clients

Introduction and Purpose

Kestrel is required to act honestly, fairly and professionally in accordance with the best interest of clients when providing investment services. This is predominately set out in MiFID II, MiFIR and in the FCA's Handbook.

This Best Execution and Client Order Handling & Allocation Policy (the "Policy") sets out how Kestrel ensures that all sufficient steps are taken to obtain best possible result for all SCE clients and that their orders are handled in a fair, just and timely manner.

Definition

Best execution is the obligation on a firm to take all sufficient steps to obtain the best possible result when executing client orders or placing orders with other entities to execute. There are a number of execution factors to consider when delivering best execution including price, cost, speed, likelihood of execution and settlement, size and nature of the order.

Application

The Policy applies to Kestrel when placing or transmitting SCE client orders with brokers for execution.

The Policy, therefore, covers equities only and mainly relates to SCE shares. The Policy does not apply to the extent Kestrel follows specific instructions from a client when executing client orders.

Best Execution policy

General Obligation

The best execution obligation requires Kestrel to 'take all sufficient steps to achieve the best possible result on a consistent basis' rather than in every case. Kestrel is also required to ensure transparency in achieving these aims. Kestrel has implemented Best Execution mechanisms, including:

- ensuring the Policy is designed with the intended outcomes in mind;

- strengthened front-office accountability;
- strengthened systems and controls and detection capabilities to identify any potential deficiencies; and
- monitoring of the execution quality obtained as well as the quality and appropriateness of the execution arrangements.

Please note that specific instructions from a client may prevent the firm from achieving best execution in line with the Policy.

Execution Factors

Kestrel assesses best execution by taking into account the “execution factors” which include price, costs, speed, likelihood of execution and settlement, order size, execution reliability of executing broker, nature or any other consideration relevant to the execution of the order.

Kestrel exercises judgement in the best interests of its clients given their different needs and requirements and is required to take into account several criteria to determine the relative importance of the execution factors:

- the characteristics of the client, including the categorisation of the client as retail or professional;
- the characteristics of the client order, where relevant;
- the characteristics of the financial instruments that are the subject of the at order; and
- the characteristics of the execution venues to which that order can be directed.

Kestrel is responsible for assessing the relative importance of the execution factors in light of these criteria and the process by which it determines the relative importance of those factors. This may result in a range of different permissible approaches to executing an order based on each financial instrument we trade.

When carrying out orders for retail client accounts, (just the KITS/SITS accounts) the best possible result shall be determined in terms of total consideration, representing the price of the financial instrument and costs relating to execution.

Deciding Execution Venues

Execution venues under this policy are brokers. Kestrel is obliged to ensure that the brokers it trades with are the ones who will assist the firm in complying with its best execution obligations (by delivering the best possible result) and that orders are passed to those brokers in accordance with the policy.

In choosing its brokers, Kestrel has taken care to select those brokers that, in the firm’s view, will enable it to obtain on a consistent basis the best possible results for its clients.

Approve Brokers List

A list of approved SCE brokers (the 'Approved list') is maintained by Kestrel and is reviewed, at least annually, or whenever a material change occurs that affects the ability to continue to obtain the best possible result for clients by the relevant Investment Committees. Generally Kestrel does not invite its clients to choose the brokers with whom it trades. The Approved list is made available to clients upon reasonable request.

Placing Orders with Brokers

In choosing a broker from the Approved list, Kestrel takes care to select a broker that, in Kestrel's view, has consistently provided a high quality execution service in relation to the stock traded. Where Kestrel places an order with a broker, Kestrel is not responsible for controlling or influencing the arrangements made by the broker relating to the execution of that order (e.g. Kestrel does not control the broker's choice of execution venues, such as exchanges, multilateral trading facilities or internal dealing facilities). Kestrel is not required to duplicate the efforts of the broker to whom an order is passed in order to ensure the best possible result.

Executing/Placing Orders with Brokers that are not on the Approved list

Kestrel's Portfolio Managers must not place orders with a broker that has not been approved unless there are exceptional circumstances. Any execution of an SCE transaction, or placing of an order with a broker, that is not on the Approved list, must be pre-approved by Compliance.

Best Execution Considerations

Kestrel's assessment of the relative importance of the execution factors in relation to decisions to deal is detailed in the table Appendix 1.

Inducements

Kestrel does not structure or charge its commissions in such a way as to discriminate unfairly between brokers.

Kestrel policy on Inducements – Research is available to clients upon reasonable request.

Client notification/consent requirements

Kestrel makes the Policy available on its website. To the extent that Kestrel makes any material changes to this policy (whether pursuant to the review process or otherwise), the firm will notify the changes to its clients. Compliance will ensure that such notifications are made.

Annual publication of information on the identity of Brokers and on the quality of execution

Upon request from a client, Kestrel shall provide its clients or potential clients with information about entities where the orders are transmitted or placed for execution.

Kestrel makes public on its website on an annual basis the top five brokers in terms of trading volumes where it transmitted or placed client orders for execution in the preceding year in accordance with the technical standards for each financial instrument it trades.

The format for disclosure is outlined in the attached technical standards - http://ec.europa.eu/transparency/regdoc/rep/3/2016/EN/3-2016-3337-EN-F1-1-ANNEX-1.PDF.

Kestrel also publishes on its website an annual assessment of the execution quality obtained from each broker for each class of financial instrument. The information includes, for each class of financial instruments, a summary of the analysis and conclusions drawn from the detailed monitoring of the quality of execution obtained on the execution venues where they executed all client orders in the previous year including:

- an explanation of the relative importance that Kestrel gave to the execution factors of price, costs, speed, likelihood of execution or any other consideration including qualitative factors when assessing the quality of execution;
- generally, Kestrel does not charge its clients for the placing of orders and costs paid to the broker and market will relate entirely to the associated execution costs. However, in rare instances this is not fitting, the firm will notify its client;
- an explanation of the factors that led to a change in the Approved list, if such a change occurred; and
- an explanation of how Kestrel has used any data or tools relating to the quality of execution.

Reports are made public on or before 30th of April following the end of the year to which the report relates.

Client Order Handling and Allocation policy

General Obligation

Kestrel has implemented procedures and arrangements which provide for the prompt, fair and expeditious execution of client orders and to allocate orders fairly when it conducts transactions involving several clients in the same security at the same time. This Order Client Handling and Allocation Policy sets out the procedures and arrangements that Kestrel has implemented to meet these obligations.

Allocation Factors

The nature of Kestrel's SCE business requires it to select from a relatively small universe of stocks for its clients. It must decide on the quantity that is prudent to purchase, to which clients they should be allocated and in what size.

Trades are allocated to clients on a basis believed to be fair and equitable; no client receives preferential treatment over any other, except that third party clients are given priority over related party clients.

In determining the suitability of each investment opportunity to a client, consideration is given to a number of factors, the most important being the client's investment objectives and strategies, existing portfolio composition and cash levels. Having considered these factors and prior to executing any transactions, Kestrel determines the allocation of an order for each client.

Kestrel does not trade for its own account.

Order Handling

If an order is made by one client only, it is executed in the normal manner in accordance with the Best Execution Policy and the entire execution is allocated to this client. Kestrel ensures that any orders executed on behalf of clients are promptly and accurately recorded and allocated.

Aggregation and Allocation of Orders

Kestrel's Portfolio Managers do not carry out a client order in aggregation with another client order unless the following conditions are met:

- It is unlikely that the aggregating of orders and transactions will work overall to the disadvantage of any client whose order is to be aggregated; and
- It is disclosed to each client whose order is to be aggregated, either orally or in writing and either specifically or in the terms of business that the effect of aggregation may work to its disadvantage in relation to a particular order.

Where an investment opportunity is suitable for two or more clients, Kestrel allocates the opportunity equitably in order to ensure that clients have equal access to the same quality and quantity of investment opportunities, and in determining such allocations Kestrel considers the Allocation Factors.

Kestrel only aggregates client orders if they are initiated with the same set of execution instructions and if they are initiated at the same time.

Details of the process of allocation for each client type are set out in Appendix 2. All deals must be allocated prior to execution.

If an error is identified in the recorded allocation, a re-allocation may be made for an aggregated order. In such cases, a record of the reason for and the basis of the reallocation must be fully documented, and the re-allocation will be completed within one business day of the identification of the error.

Allocation records for aggregated transactions must include the time and date of the allocation; the client's identity and the amount allocated to each client and party involved. The trade records serve as the allocation records. The time and date of the allocation is the order time unless otherwise noted. Kestrel is required to retain the records relating to aggregated orders for a period of at least 5 years from the date on which the order is allocated or reallocate d.

Procedures

Kestrel has adopted the following procedures to monitor the effectiveness of its order execution arrangements and this policy as well as be able to demonstrate to clients that it has acted in accordance with this policy.

Front Office Monitoring

The systems necessary to record and monitor orders and executions as well as the links with the middle office and prime brokers lie within the front office. Therefore, all orders must be made through the front office. Additionally, all confirmations are passed to the front office.

It is solely the job of the front office to monitor the quality of executions, and ensure compliance with FCA regulations and to also ensure proper control. Authorised traders are alllisted on the FCA's register as holding CF30 Customer Function. These names have been communicated to Kestrel's brokers with instructions to them not to accept orders from anybody else.

The front office is responsible for keeping copies of orders and trade confirmations.

Compliance Monitoring

The compliance monitoring process involves a periodic review by Compliance of a random sample of transactions to ascertain whether the best possible result was obtained in respect of those transactions.

Compliance has set out various factors, as set out in the paragraph below, that identify transactions that require further investigation to determine whether Best Execution was achieved.

For transactions where price was the most important execution factor, this involves a review of prices that were available at the time of execution. Where better prices than the price obtained were available, Compliance discuss this with the relevant member of staff who effected the transaction and determine whether, bearing in mind the other factors that the Portfolio Manager considered to be of importance (e.g. size and nature of order) at the time, the best result was nevertheless achieved.

Where another execution factor was the most important (e.g. speed of execution), Compliance consider whether the best possible result was achieved in terms of that factor and again whether, bearing in mind the other factors that the Portfolio Manager considered to be of importance at the time (e.g. price, size and nature of order), the best result was nevertheless achieved.

Compliance, as owner of the Policy, may make changes to the Policy depending upon the outcome of the monitoring process. The monitoring of the adherence to the Policy, and the record keeping, forms part of the Compliance Monitoring Programme performed by Compliance.

Review

At least annually, Kestrel front office reviews the Policy to ensure it is capable of delivering best execution on a consistent basis and orders are handled in a fair, just and timely manner. Kestrel front office also reviews the 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. What is material will depend on the nature and scope of any change. This could include close links, conflicts of interests and common ownerships with respect to any execution venues used to execute orders.

The reviews are supervised by Compliance and this requirement has been incorporated into Kestrel's compliance monitoring process.

This policy was reviewed and approved by Kestrel's Partners on 14 March 2019.

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Appendix 1: Detailed Requirements of the Execution Policy for Equities.

Instrument Class	Execution Factors
Equities	The firm uses the brokers listed on its Approved List. New brokers must be requested using the form in GATEway which is reviewed and approved by Compliance. For smaller orders, the Portfolio Manager will on many occasions consider that price is the most important execution factor. Other execution factors are permitted to be taken into account at the discretion of the relevant Portfolio Manager as is appropriate for the size and nature of the relevant order (and one or more of these other factors may displace price as the most important factor). Where the order is to be passed to a broker for execution, the Portfolio Manager will select a broker from the Approved list that, in the Portfolio Manager's view, has a track record of achieving the best result in terms of the relevant execution factors (taking into account the various brokers' stock coverage). As an additional safety measure, Kestrel makes use of limit orders to ensure that its orders are executed at desirable prices. For larger orders, the Portfolio Manager will often consider that, in addition to price, certainty of execution, reduction of market impact and speed of execution will have similar importance and these factors will often drive the Portfolio Manager's decisions as to which broker to pass the order to. Often, to ensure executions and minimum market impact such orders may be split among multiple brokers.

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Appendix 2: Allocation methodology per client type

Client types

IM1 - Kestrel Opportunities Fund ("KOF").

IM2 - clients that are invested in KITS/SITS IHT and ISA accounts.

IM2 accounts controlled by the IM1/IM4 Portfolio Manager ('MR Controlled Accounts') – 2 client accounts

IM4 - a US managed account ("USMA")

IM4 - Advisory clients

IM1/IM4 trades

The allocation between KOF and USMA is agreed by Kestrel's Investment Management Committee for IM1/IM4 ('IMC1'). The allocation of trades in each position is agreed at each IMC1 meeting. Changes to allocations are notified to the front and middle office. In general the aim is to ensure that positions are split on an AUM pro-rata basis which can change over time due to subscriptions and redemptions. Some positions may, however, be split differently due to mandate restraints. The allocation split is determined by IMC1. There is a de-minimis consideration (currently £15,000) which is set by IMC1. If the consideration is below this amount, the trade is allocated, generally to one client only, at the Portfolio Manager's discretion.

Any departures from the KOF/USMA split set by IMC1 outside the agreed guidelines, excluding the de minimis exception, must be approved by Compliance in advance of trading. The Portfolio Manager must inform Compliance of the rationale for the different split and request approval. If Compliance does not approve the rationale, the issue is then escalated to IMC1.

IM2 trades (excluding MR Controlled Accounts)

IM2 client allocations follow specific rules that are set out below. There is an element of Portfolio Manager discretion but the Portfolio Manager within the rules set is required to be mindful at all times to treating all clients fairly.

Purchases

IM2 clients have a set amount of capital, invested in their IHT or ISA product, so clients are only allocated shares on purchase orders while they have uninvested cash (this does not include cash balances retained for payment of fees). The Portfolio Manager determines the size of the order on the amount of shares required by each account with uninvested cash but, depending on liquidity of the particular stock, may restrict the size of each particular order. Partial fills in respect of these orders are allocated on the following basis:

a) To clients where there is a likelihood of an imminent inheritance tax event – most likely first.

b) To new clients in order of receipt of cash who need to commence the two year investment process to obtain Business Property Relief.
c) To all other clients with uninvested cash using a wealth preservation principle i.e. the least profitable accounts first.

In making the allocations the Portfolio Manager also ensures that:
i) No single shareholding in an account will, post trade, exceed 15% of the account's portfolio.
ii) That an allocation is only made to a client if the amount is of sufficient size (normally > £3k) to justify the transaction costs.
If there are only a few shares left after allocating to accounts in order then those share will be allocated back to accounts which have already received their allocation.

Shares can be purchased from other accounts for instance when closing an account and allocating to new accounts or when accounts need cash for expenses. The purchase allocation of these cross trades follows the above methodology. All these trades are placed through Winterfloods (to ensure post trade reporting takes place) and executed at mid-market at the time the order is placed.

Sales
IM2 sell trades are carried out for 4 main reasons:
a) to close an account. When closing an account the shares can be reallocated to other IM2 accounts with uninvested cash i.e. cross trades as noted above. There are generally no allocation issues when closing an account unless 2 accounts are closed at the same time. If this is the case then the methodology below is followed;
b) to close a "non-performing" position or to take profits. In this case the Portfolio Manager attempts to sell from all accounts holding the position but orders have to be allocated as and when they are executed. This means that not all clients, from whom the position is to be liquidated, can be filled;
c) to trim positions that are overweight in an account; and
d) to pay account expenses e.g. the management fee i.e. to ensure that accounts remain in credit

Partial fills are allocated at the Portfolio Manager's discretion taking into account the timing of the closure request, the account's requirement for cash (accounts cannot be overdrawn) and finally wealth preservation.
The Portfolio Manager will also consider the impact of transaction costs in making the allocations.

The IM2 allocation methodology is included in the KITS and SITS marketing documents and the terms and conditions included in the application pack.

Any departures from the IM2 allocation methodology above must be approved by Compliance. The Portfolio Manager must inform Compliance of the rationale for the split and file Compliance approval e-mails. If Compliance does not approve the rationale, the issue is then escalated to Kestrel's IM2 Investment Management Committee ('IMC2').

If the Portfolio Manager wishes to change the allocation methodology above this must be approved by the IMC2 and Compliance must sign off that the revised methodology meets the requirements to treat all clients fairly. Changes must be notified to all clients in IM2.

<u>IM4 Advisory clients</u>

The IM1/IM4 Portfolio Manager execute trades for IM4 advisory clients in relation to SCE stocks that they hold for investment. These trades are occasional, given the long holding period. These stocks are generally also held by other SCE clients.

Where the Advisory client has instructed Kestrel to trade and this coincides with the Portfolio Manager also wanting to trade in the same direction on behalf of IM1/IM4 clients then the orders must be aggregated. Some of the Advisory client agreements require notification to the Advisory client of either sales or all trades by other clients of these stocks where they exceed a de minimus level.

All agreements require a pro rata allocation.

On purchases the allocation is based on the amount the client wishes to purchase. If the executed amount is less than the total order amount then the allocation will be reduced pro rata to the order.

On sales of shares the order must be on a pro rata basis based on the number of shares held by each client selling and reduced pro-rata to this order split for any shortfall in the amount filled. The Portfolio Manager has discretion to allocated fully or not at all to accounts where the remaining value of the holding would be less than £25,000.

<u>IM2 MR Controlled Accounts</u>

The IM1/IM4 Portfolio Manager executes trades for IM2 MR Controlled Account clients in relation to SCE stocks that they hold for investment. Like the Advisory clients these trades are occasional, given the long holding period and generally held by other SCE clients. The Portfolio Manager has discretion over these accounts but the clients can instruct trades.

Where decisions to trade are taken at the same time as IM1/IM4 clients or Advisory clients then the orders must be aggregated. Allocations must follow the same methodology for purchases and sales as set out in the IM4 Advisory client section.

IM1/IM4 and IM2 trades (not controlled by MR)

If an order is being placed for IM1/IM4 (including advisory clients) and/or it is a security that the IM2 Portfolio Manager wishes to buy/sell then the IM2 Portfolio Manager advises how many shares IM2 wants added to the order or, on rare occasions, vice versa. When the execution comes back from the broker the IM2 Portfolio Manager allocates the IM2 portion based on the purchase or sell methodologies above and the IM1/IM4 order is allocated based on their approved split.

If the Fund Manager wishes to cross stock between accounts, he should ensure that there are no conflicts in this regard and the rationale should be clearly documented for all clients concerned in the order file. On all cross trades, Portfolio Managers must consider the needs of the relevant clients and be comfortable that the benefits of crossing the trade are favourable to the clients involved as opposed to executing the trades independently taking into account best execution factors.

As with IM2 the trades must be executed through a broker (to ensure post trade reporting) and executed at the mid-price at the time of the order. There should be no delay in placing the order once the decision to trade has been taken.

Any allocations that do not follow the methodology set out above must be approved by Compliance and the relevant IMC.