KNG UK Best Execution and Order Handling Policy

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1. Introduction

This Best Execution and Order Handling Policy sets out KNG Securities LLP's (UK) ("KNG" or the "Firm") arrangements, in relation to best execution and handling of client orders, in line with the regulatory requirements of MiFID II and the Financial Conduct Authority ("FCA"), as set out in the Conduct of Business Sourcebook ("COBS"), and industry best practices.

This Policy describes the arrangements implemented by KNG when executing orders on behalf of clients, which have been categorised as **Professional Clients** under MiFID II Client Categorisation Rules.

The obligation to provide best execution does not apply to business undertaken on behalf of clients, which have been categorised as Eligible Counterparties (except for clients classified as an Eligible Counterparty who requested specifically to be treated as a Professional Client).

KNG does not provide investment services directly to Retail Clients.

2. Best Execution

2.1 What is Best Execution?

'Best execution' is the duty owed by KNG to clients to take all sufficient steps to achieve the best possible result, on a consistent basis, when executing orders and transactions on their behalf, taking into account the following Execution Factors:

- **Price** – this is the price of the financial instrument in which KNG buys from or sells to a client. As KNG does not operate under a commission-based execution model, the price does not include any broker commissions charged by KNG to the client. However, the price can include a spread (also known as a mark-up or sales margin) as described in more detail in Section 2.5.
- **Likelihood of execution** – the likelihood that KNG can execute a client's order, or at least a substantial part of it. This factor increases in importance where access to liquidity in the financial instrument is restricted in some way.
- **Likelihood of settlement** – the likelihood that the transaction executed by KNG for a client is settled in a timely fashion or the exposure to settlement risk.
- **Costs** – these relate to commissions, costs and other fees that are charged for executing a client order.
- **Speed** – this is the rate at which KNG can execute a client order in a timely manner.
- **Order size** – this is the size of the order in proportion to the average turnover in a specific financial instrument in the given market.
- **Nature of the order** – occasionally, the nature of a client order sets out conditions or restrictions for KNG when executing the order. For example, an upper or lower limit on a price or size that a client is willing to buy or sell a financial instrument.
- Any other considerations relevant to the efficient execution of the client's order, such as the nature of the relevant market, prevailing market conditions and attempting to minimise market impact.

2.2 When Best Execution Applies

The obligation to deliver best execution to clients apply across all types of financial instruments, regardless of whether they are traded on a trading venue or over the counter ("OTC"). However, the difference in market structures and nature of financial instruments means that there is no uniform standard for how and when best execution should be applied to all classes of instruments.

The best execution obligation applies where KNG executes 'orders' in financial instruments. This includes the following circumstances:

- Where KNG executes an order on behalf of a client, including where KNG 'internalises' a client order by executing against KNG's own trading book.
- Where KNG transmits orders to third parties for execution on behalf of a client, including where KNG deals as a riskless principal.
- Where KNG agrees to 'work' an order on behalf of a client, such that KNG makes decisions as to how the order should be executed.
- Where KNG otherwise agrees to provide best execution to a client.
- In quote driven markets, where KNG determines that a client is likely to be relying on KNG to provide best execution, in accordance with the four-point assessment specified further below.

The best execution obligation does not apply where KNG is not executing an order on behalf of a client, or where KNG transacts with a client but not on the basis of an 'order'.

In particular, in the over-the-counter ("OTC") quote-driven, wholesale broker markets, trading activity is generally undertaken on the basis of a request by a client to buy or sell a financial instrument from or to KNG, or the acceptance by a client of an offer or quote from KNG to buy or sell a financial instrument from or to it, including 'hitting' or 'lifting' quotes displayed by KNG on electronic trading platforms. In such cases, KNG trades on an arm's length basis in a principal capacity.

Based on the nature of financial instruments traded by KNG, their relevant market structures and the fact that KNG only trades with Professional Clients and Eligible Counterparties on an OTC basis, further consideration is required to determine whether KNG owes a duty of best execution to its clients.

In line with ESMA guidance[1], the application of the best execution obligation to client trading activity, booked to a firm's principal trading books, depends on whether the **client legitimately relies** on the firm to protect its interests in relation to the pricing or other elements of the transaction.

To determine whether a client is legitimately relying on KNG to protect its interests, various characteristics of the transaction will be assessed, including the four points below:

- Whether KNG or the client initiates the transaction. Where KNG approaches the client and initiates the transaction, it is considered more likely that the client is relying on KNG to provide best execution.
- The market practice in which participants interact for price discovery and execution. For example, in certain markets (such as OTC bond markets) buyers conventionally 'shop around' by approaching several brokers for a quote. In such circumstances, there is likely to be no expectation that if KNG was chosen by the client, it would owe best execution.
- The relative levels of transparency within the market. For markets where pricing is less transparent and readily accessible to clients, it is considered more likely that clients are relying on KNG in relation to the pricing of the transaction.
- The information provided by KNG about its services and the terms of any agreement between KNG and the client, although this is not necessarily determinative.

2.3 When Best Execution Does Not Apply

In line with the ESMA guidance, there are two scenarios where the KNG is **generally not considered** to owe an obligation of best execution to the client:

- **Request for Quote** – Where a client approaches KNG with a "request for quote" ("RFQ") to buy or sell a particular financial instrument or where KNG trades with the client as a principal "on risk", in a market where the standard practice of clients is to ask several dealers for quotes, and where the client's access

[1] https://www.esma.europa.eu/sites/default/files/library/2015/11/07_320.pdf

to prices in the market means they are able to, and actively do, assess KNG's quotes against those provided by other dealers.

- **<u>Specific Client Instructions</u>** – Where a client sends specific instructions to KNG in relation to the handling and execution of an order (or aspects of an order), including executing at a particular price or time or through the use of a particular strategy, then subject to KNG's legal and regulatory obligations, KNG will execute the order based on the client's specific instructions. This means that KNG's duties to the client will be satisfied by executing the order in accordance with the client's specific instructions and there will be no further obligations of best execution.

In relation to the second scenario, KNG must not induce a client to instruct it to execute an order in a particular way, by expressly indicating or implicitly suggesting the content of the instruction to the client, when KNG ought reasonably to know that an instruction to that effect is likely to prevent it from obtaining the best possible result for that client.

The large majority of transactions executed by KNG with clients will fall within one of the two (or both) of the scenarios above. In such cases and taking account of the four-point assessment above, KNG will not be acting on behalf of clients and no 'order' arises. Best execution is therefore typically not owed to the client in such circumstances. However, where little or no price transparency exists, such as in less liquid markets or emerging markets, a client is more likely to be placing reliance on KNG and therefore a duty of best execution will more likely apply.

Irrespective of whether or not KNG has a best execution obligation to a client, in general or in relation to a specific transaction, KNG will treat all clients fairly in a consistent manner and will manage any conflicts of interest that may arise in the course of providing services to them. In particular, KNG will take measures to verify the fairness of prices offered to clients when dealing on an OTC basis.

2.4 Evaluation of the Relevant Execution Factors

Where best execution applies to a client, KNG will evaluate the relative importance of each Execution Factor using commercial experience and judgement, in light of available market information and liquidity of the relevant financial instruments, and following the general criteria below:

- The client's characteristics, including whether the client is classified as a Professional Client or Eligible Counterparty;
- The characteristics and nature of the client's order, including whether any specific instructions are received by the client;
- The characteristics of the financial instruments that are subject to the client's order; and
- The characteristics of the execution venues to which the client's order can be directed.

The table below sets out how KNG has evaluated the relevance and importance of each of the Execution Factors based on the financial instruments and markets traded by KNG.

Execution Factor	Considerations
Price	For fixed income products traded by KNG with its clients, 'price' of execution will usually be the most important Execution Factor to achieve best possible results. The market is primarily OTC driven, which means that prices are set efficiently by market makers based on transactions executed, typically on a RFQ basis. KNG will seek to ensure the fairness of prices proposed to clients, by gathering market data used in the estimation of the prices and, where possible, by comparing with similar or comparable products. See Section 2.5 and Section 2.6 below for further considerations on price.
Likelihood of Execution	The likelihood of execution and settlement, particularly in illiquid OTC products, is considered another important factor to achieve best possible results for

Likelihood of Settlement	clients. In addition to having fewer potential buyers and sellers in the market, there is also a risk of price slippage if execution or settlement delays or fails. KNG will execute client orders on a best-efforts basis, tailored to each client's requirements. If the lack of liquidity in the market results in a reduced likelihood of execution or settlement, this will be communicated clearly to clients at the time of acceptance of the RFQ.
Order Size	The size of the client order could be an important factor, particularly if the order size exceeds the daily average turnover in a specific financial instrument, e.g. in the event of block trades or in very illiquid markets. When executing large trades, this could have a material effect on the pricing of the financial instruments and KNG may not consider 'price' and 'speed' as the most important factors to achieve best possible results for the client. A client's prevailing interest may be to build up or unwind a substantial position in a specific financial instrument or the order may need to be broken down into smaller sizes executed at different price levels. In these circumstances, KNG may consider the likelihood of execution and settlement as the most important execution factors. There may also be occasions when a smaller sized order (i.e., odd lots) cannot be executed at the best price available for a normal market size.
Speed	Under normal market circumstances, KNG will execute orders promptly on receipt. Where a client's instructions dictate or imply a speed at which KNG should execute the order, KNG will follow the instructions as expeditiously as possible, unless an immediate and substantial conflict with the price is identified. Where the client's instructions do not refer to speed, KNG will execute the client order at a speed believed to represent a balance between creating market impact and executing the order in a timely fashion to reduce execution risk. In addition, given the illiquid nature of a significant percentage of bonds traded by KNG, it may take an extended period of time to find liquidity for a bond in the market. As such, the 'price' and 'likelihood of execution and settlement' are likely to take higher precedent over 'speed' when executing client orders.
Cost	KNG frequently executes client orders and transactions outside of a trading venue on an OTC basis and as such, there are minimal to no execution venue costs passed to clients. Should the Firm seek to execute an order or trade on an exchange or MTF, as relevant and appropriate, it will consider liquidity and potential venue costs as prevailing factors for determining the best execution. In addition, KNG does not charge execution fees or commissions to client for executing their orders. As such, 'costs' in general will have very limited influence in the way that KNG executes client orders.

Under any circumstances where KNG believes one or more Execution Factor cannot be achieved, which could materially impact delivering the best possible result to the client, this will be communicated to the client on receipt of the order or prior to execution of the order.

2.5 Spread and Mark-up

When dealing with clients in fixed income securities (and in some cases, a small number of equity securities), KNG will provide an 'all-in' price to the client based on a spread (or otherwise known as "mark-up"). The spread applied is intended to compensate KNG for a number of service, risk and cost considerations, which KNG incurs, or is likely to incur, as a result of agreeing to transact with its clients.

The spread may include a sales margin. The spread is applied to the price at which KNG may be able to transact the financial instruments in the market, or the price at which KNG can otherwise deal with its market counterparts.

The decision to charge a spread, including the degree of the spread, is determined by a number of factors including, but not limited to, the size of the transaction, liquidity, market conditions, funding costs, clearing and settlement fees, market risk, credit and counterparty risks, operational risk, the level of service provided to the client, a client's past trading activity with KNG, as well as the expectation that a client will buy or sell including the timeframe in which this might occur.

The addition of the spread is at KNG's discretion and may mean that KNG will offer a different price to different clients for the same financial instrument. The size of the spread will therefore vary according to the unique circumstances of a particular transaction. In any event, KNG will always ensure that the level of the spread is appropriate and fair.

2.6 Pricing in Illiquid Markets

When dealing in illiquid markets where products trade infrequently or there may be little or no price transparency available to either KNG or its clients, KNG will seek to derive what it considers to be a fair market price from financial instruments with comparable characteristics, including terms of maturity, creditworthiness, and type of issuer. KNG will also consider the last traded price where available.

KNG will apply what it considers to be a reasonable and fair spread to such price to compensate itself for any incurred costs. In such markets, although price remains a key factor, the likelihood of execution may at times be the most prominent execution factor.

2.7 Execution Venues

An 'execution venue' for best execution purposes is defined as a regulated market, multilateral trading facility ("MTF"), organised trading facility ("OTF"), a market maker or other liquidity provider, or an entity that performs a similar function in a third country.

KNG primarily trades bilaterally with clients on an OTC basis (via voice and electronic trading mechanisms). It also has access to a number of MTFs and OTFs through which clients can submit RFQs and trade with KNG. Where KNG is able to provide the price electronically directly to clients, KNG will select an execution venue on the basis of the demand from clients and cost of execution. KNG pays dealer fees for participating on such platforms and it has the right to price financial instruments accordingly, in order to reflect any incurred costs. Consequently, KNG may apply a wider spread to the same financial instrument on one platform than it may have applied on another. In any event KNG will price in a fair and reasonable manner.

KNG may execute orders or transmit or pass orders, on behalf of a client, to a KNG affiliate entity or a third-party broker / dealer for execution outside of a trading venue where it believes it can achieve best execution for the client. With respect to the use of third-party brokers / dealers, KNG will periodically review the choice of brokers / dealers used to ensure that best execution is being provided on a consistent basis, where an obligation applies.

KNG does not receive payment for order flow, which means that KNG does not receive remuneration, discount or non-monetary benefit for routing client orders to a particular execution venue.

2.8 Analysis and Monitoring of Execution Quality

Where best execution obligations apply, KNG undertakes ongoing monitoring of the transactions with clients to ensure it has taken all sufficient steps to obtain the best possible result for its clients. In particular, KNG will review the fairness of prices at which it has executed trades with clients, by comparing these to prevailing market prices at the time the trade was executed.

Trades which exceed pre-determined tolerance parameters for the various markets in which KNG deals (i.e. resulting in a potential negative outcome for clients) are identified and subject to review by the Business. Explanations for any anomalies and justification for pricing will be recorded and evidenced with relevant market and trading data and / or any pricing methodologies used to derive the prices.

To oversee the best execution arrangements, Senior Management and Compliance meet periodically to review the results of this monitoring, the quality of the explanations provided and any best execution issues that may have arisen. Where required, Senior Management and Compliance will challenge the relevant trading desk to provide further justification on pricing and whether any appropriate actions should be considered to remedy any unfair prices provided to clients. In addition, best execution and execution quality reviews are included within KNG's Annual Compliance Monitoring Programme for periodic testing to ensure the Business has adequately adhered to the provisions of this Policy.

3. Client Order Handling

3.1 General Principles

For the purpose of this section, any reference to 'client orders' shall also mean client instructions received by KNG to buy or sell a financial instrument, or the acceptance by a client of an offer made by KNG to buy or sell a financial instrument.

Similar to best execution, the requirements for appropriate client order handling applies to KNG when trading with Professional Clients only, and not to Eligible Counterparties.

KNG will execute client orders in a prompt, fair and expeditious manner, relative to other client orders and the Firm's own trading interests. To achieve this, KNG will:

- Treat all client orders in a non-preferential manner i.e., no single order may be systematically favoured over another;
- Ensure client orders are not disadvantaged unfairly, relative to the Firm's own account trades, when the Firm takes "on risk" positions. The Firm's policy is that client orders or instructions will precedent over own account trades;
- Ensure client orders are promptly executed, unless market conditions make this impractical or challenging;
- Where applicable, aggregate comparable client orders appropriately to benefit from cost efficiencies;
- Promptly and accurately record client orders and transactions within KNG's internal systems; and
- Promptly, accurately and fairly allocate executions to respective client accounts.

KNG does not consider an order to be received until it has been understood and acknowledged by the appropriate Sales or Trading representative of KNG. For this reason, KNG requires all clients to communicate orders to KNG through established methods only, which will generally be voice, email Bloomberg Chat or an RFQ system, depending on the practice in the relevant market or as agreed with the client. Failure to do so may lead to delays in the desired execution with the risk that market movements during that time may lead to orders being executed at a worse rate.

3.2 Aggregation and Allocation of Client Orders

In most cases, the Firm trades on a matched basis between a single buying client and a single selling client, although it may on occasion take on risk for a short period of time.

On rare occasions, KNG may receive two or more comparable client orders in the same financial instrument and direction and may aggregate the client orders for more efficient and cost-effective execution. In such circumstances, KNG will ensure the fair allocation of aggregated orders between the clients, in accordance with COBS 11.3.7A.

KNG is not permitted to aggregate comparable orders for its own trading account with those of its clients.

When KNG aggregates two or more client orders, the Firm's policy is for executed trades to be allocated to clients **strictly on the basis of the order in which the client orders were received**. In the event that multiple client orders are received at the same time and a complete execution of all relevant orders cannot be completed, this will be **allocated on a pro-rata basis in accordance with the size of the order** for each client, where this is practical. In the event of a non pro-rata allocation being made, for example due to a small execution size making this impractical, the reasons for this will be documented for record.

These procedures ensure that when the Firm aggregates client orders and subsequently allocates the executions, it does so consistently and in accordance with the FCA rules covering:

- **Timely allocation:** Allocation will be made promptly between each client account;
- **Fair allocation:** All clients will receive the same executed price or a volume weighted average where there is a series of executions;
- **Re-allocation:** Any errors in allocation will be promptly corrected so as to not benefit any one client over another; and
- **Record keeping:** Full documentation is retained for all allocations and retained for a period of at least five years from the date of the transaction.

Whilst the Firm is authorised to deal on its own account as principal, it does not typically take custody of financial instruments on its principal book to work the client orders, before passing the completed order onto the client. Should this be required and agreed with the client, KNG will do so in a way that is fair to the client with any conflicts of interest managed appropriately.

3.3 Market Making and Pre-Hedging Activity

As a wholesale broker, KNG may seeks to hold positions in the same financial instruments, which may also be the subject of a client order, so that KNG can meet any reasonably expected near term demand in those financial instruments and manage its risks arising from those positions and client orders. It is possible that such activity may contribute to movement in prevailing prices in those financial instruments and therefore, may impact the price of a subsequent client order or request to trade. Any pre-hedging activity undertaken by KNG, which may materially impact the price of the financial instruments, will be communicated to the client, in advance of executing the client order or the client's request to trade.

3.4 Client Limit Orders

This section is only applicable to client limit orders in shares, including Global Depositary Receipts ("GDRs"), American Depository Receipts ("ADRs") and Preferred Shares admitted to trading on a regulated market or MTF, as governed by the FCA's pre-trade publication requirements. The purpose of this requirement is to ensure that order execution occurs in a timely manner in the market.

A client limit order is an order to buy or sell a financial instrument at a specified price limit or better, and for a specified size. A regulated firm (acting as broker or dealer) is required to make public, via the regulated market or MTF order book or on a data reporting service, the details of any client limit order in shares that it cannot execute immediately under the prevailing market conditions.

This obligation does not apply to the regulated broker or dealer:

- Where the client has expressly instructed the broker or dealer not to make the order public in accordance with COBS 11.4.1R;
- In the case of a client who is an Eligible Counterparty, where the Eligible Counterparty is explicitly sending a limit order for execution;
- Where the order is considered large in scale and an appropriate waiver can be applied; or

- Where the trades in shares are executed on an OTC basis, outside of a regulated market or MTF.

All clients who enter into KNG's Terms of Business agree to instruct KNG not to immediately make public any unexecuted limit orders. In addition, as KNG only trades shares on an OTC basis and not on a regulated market or MTF, it is not required to publish any respective OTC client limit orders, as long as it ensures the client orders are made public and easily executed i.e., via KNG's normal trading mechanisms to the market.

3.5 Settlement of Executed Orders

KNG is responsible for overseeing or arranging the settlement of executed orders for clients and uses third-party clearing and/or settlement agents. KNG will take all reasonable steps to ensure that any client financial instruments or client funds received in settlement of an executed order are promptly and correctly delivered to the account of the appropriate client.

3.6 Reporting Trade Confirmations to Clients

In accordance with COBS 16.1, when KNG carries out a client order it will promptly provide the client, in a durable medium, with the essential information concerning the execution of the order. This will be sent out as soon as possible and no later than the first business day following the date of execution. In addition, KNG will provide clients with details of the status of their order, upon request.

3.7 Policy Review

KNG will review this Policy and its best execution arrangements at least annually, or whenever there is a material change that affects its ability to continue to obtain the best possible result for clients.

KNG intends to publish material amendments to this Policy on its website:

https://www.kngsecurities.com/site_pages/legal-and-regulatory

Clients will not be separately notified of any material changes to this Policy.

3.8 Client Enquiries

KNG is required to demonstrate upon request, that it has executed orders in accordance with this Policy.

As a KNG client, if you require further information as to how KNG has executed any of your orders, you should contact your KNG relationship manager. If, after discussions with your relationship manager, you are not satisfied with the information provided to you or the quality of execution, you should contact KNG's Compliance Department at Compliance@kngsecurities.com.