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# Epworth Investment Management Ltd Order Execution & Allocation Policy

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## OUTLINE FOR ORDER EXECUTION POLICY

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This Order Execution Policy, which includes the Allocation Policy, applies to Epworth Investment Management Limited (EIM). It covers all transactions and all financial instruments executed on behalf of EIM's clients. Specifically, this includes the execution of orders on clients' behalf (where EIM acts a discretionary fund manager) and receiving and transmitting client orders. It excludes orders for mandates delegated to third parties, in which circumstances the third party's order execution policy will apply. Where clients are referred to in this Policy, they are deemed to include funds managed by EIM.

EIM is required to establish and implement effective arrangements for complying with the obligation to take all sufficient steps to obtain the best possible result for EIM clients when executing orders and when placing orders with third parties for Execution. From January 3<sup>rd</sup>, 2018 EIM has been transacting all market orders via a third-party provider, **Northern Trust** (NT) which executes the trades. NT is responsible for obtaining Best Execution on EIMs order flow and will be providing Best Execution monitoring data on a monthly basis to enable EIM to carry out an ongoing assessment to ensure it is satisfied with the results. This is currently provided by an external firm.

With the exception of the counterparties to the Epworth Cash Plus Fund for Charities, NT will be EIMs only counterparty. A link to a copy of NTs Order Execution policy can be located on our EIM website <https://www.northerntrust.com/documents/legal/mifid/nt-order-execution-policy.pdf>

### INTRODUCTION

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The objective of this Policy is to establish, implement, monitor and review the portfolio management activities of EIM to ensure the best possible result for clients. This Policy discloses our portfolio management policies, procedures and controls in accordance with the regulations and the requirements of Directives such as the Markets in Financial Instruments Directive ('MiFID') and the Alternative Investment Fund Management Directive ('AIFMD'). This Policy will be reviewed annually. This Policy sets out the standards required under MiFID II. Where a firm undertakes the business of both Managing an AIF under AIFMD and the MiFID Investment Service of Portfolio Management, the firm may decide to adopt a different (AIFMD-compliant) Order Execution Policy for its AFM activities from that it adopts for its MiFID Portfolio Management business.

### BEST EXECUTION OBLIGATION

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Alternative Investment Fund Managers (AIFMs) authorised under the AIFMD, when undertaking the MiFID Investment Service of Portfolio Management, are required to act in accordance with the best interests of its client when placing orders with other entities for execution that result from decisions by the firm to deal in financial instruments, on behalf of its client. This, in turn, requires firms to take all sufficient steps to obtain the best possible result for their clients when placing orders with other entities for execution that result from decisions by the firm to deal in financial instruments on behalf of its client, taking into account the Execution Factors of:

- (a) Price
- (b) Costs
- (c) Speed

- (d) Likelihood of execution and settlement
- (e) Size
- (f) Value
- (g) Type and Characteristics of the financial instrument
- (h) Any other factor relevant to the execution of the order.

The relative importance of these Execution Factors is to be determined by reference to the Execution Criteria.

## **THE EXECUTION CRITERIA**

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The Execution Criteria is as follows:

- (a) the characteristics of the client, including the categorisation of the client as retail or professional;
- (b) the characteristics of the client order;
- (c) the characteristics of financial instruments that are the subject of that order;
- (d) the characteristics of the execution venues to which that order can be directed.

## **SCOPE**

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Where the Firm's client is a professional client, in general EIM would expect price to be the most significant factor in the execution of transactions unless instructed otherwise by the client. However, there may be circumstances where depending on the nature of the transaction other factors should be prioritised over price. EIM owes a professional client a duty of best execution, where they provide EIM with specific instructions in relation to the entire transaction, or any particular aspect of the transaction, then EIM will arrange for the transaction to be executed in accordance with those instructions and in doing so have satisfied best execution obligations. Where such a professional client's instructions relate to only part of the transaction, the remaining element not covered by their instructions will remain subject to Best Execution requirements.

Where the Firm's client is a Retail client, then EIM must determine the best possible result in terms of the total consideration, representing the price of the financial instrument and the costs relating to execution, which shall include all expenses incurred by the client directly relating to the execution of the order, including execution venue fees, clearing and settlement fees and any other fees paid to third parties involved in the execution of the order.

## **TYPES OF FINANCIAL INSTRUMENTS**

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### **Reference Page 13 (Order Types and scenario Analysis) Northern Trust Order Execution Policy.**

From January 2018, all EIM transactions have been executed through Northern Trust (NT). NT is thus the only counterparty of EIM (with the exception of the Epworth Cash Plus Fund for Charities approved deposit takers which are listed on page 5 and Foreign Exchange orders which are currently transacted through HSBC).

Orders generated are transmitted to NT via a Bloomberg Terminal, either via the TSOX (Trading Systems Order Exchange) or ESMX (Execution Management System Exchange); the type of Bloomberg exchange used is determined by the asset class of the order.

Once the order has been transmitted to NT, EIMs designated Sales Traders will transact the order in line with best execution parameters. An execution report will be issued once the order has been completed.

### **General Principles**

EIM has established and implemented procedures and arrangements in respect of all the client orders which provide for the prompt, fair and expeditious execution (i) of all client orders, relative to other orders; and (ii) of portfolio transactions on behalf of the funds managed. EIMs order execution policy ensures that when carrying out client orders (including portfolio transactions on behalf of the funds managed):

- Orders executed on behalf of clients are promptly and accurately recorded and allocated; and;
- Otherwise, comparable orders are carried out sequentially and promptly unless the characteristics of the order or prevailing market conditions make this impracticable, or the interests of the client require otherwise.

EIM has systems in place to ensure that when orders are executed for clients by NT, including the funds managed by EIM, any client financial instrument or client funds received in settlement of that executed order are promptly and correctly delivered to the account of the appropriate client. Lastly EIM has in place internal rules and procedures aimed at preventing the misuse of information relating to client order.

### **Abnormal Market Conditions**

This Policy may not apply at a time of severe market turbulence, and / or internal or external system failure where instead the ability to execute the order on a timely basis, or at all, will become the primary factor.

### **EPWORTH CASH PLUS FUND FOR CHARITIES COUNTERPARTY REVIEW PROCESS**

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The counterparty list (lending limit list) is reviewed twice a year by the Epworth Board. The review process takes into account banks' size, credit ratings and financial strength. If bank credit strength deteriorates between reviews, the Fund Manager automatically reduces counterparty limits. If bank credit strength improves, then increases to counterparty limits must wait until the next Epworth Board review to be implemented.

List of approved deposit takers which are subject to change on a 6 monthly review process or earlier if required: -

**Bank Lending Limit List and CDS spreads – Feb 2023**

06 February 2023	Long-term	erm rating	ing	Average	No. of P-1	L	ending Limit	Limit over 95 days	5 YR CDS SPR current
	Moody's	S&P	Fitch	Credit Rating Score	Short-term ratings				
£90 million (Category 3 - Average score of 2.4 to 3.4)									
State Street Bank and Trust (sub of State Street Corp)	AA1		AA-	AA	3.00	3	£90m	£65m	#N/A
DBS Bank	Aa1		AA-	AA-	3.33	3	£90m	£65m	#N/A
JP Morgan Chase Bank (sub of JP Morgan Chase & Co)	Aa1		A+	AA	3.33	3	£90m	£65m	59.55
Korea Development Bank	Aa2		AA	AA-	3.33	3	£90m	£65m	#N/A
Royal Bank of Canada	Aa1		AA-	AA-	3.33	3	£90m	£65m	#N/A
Svenska Handelsbanken	AA2		AA-	AA	3.33	3	£90m	£65m	#N/A
Toronto Dominion Bank	Aa1		AA-	AA-	3.33	3	£90m	£65m	#N/A
£85 million (Category 4 - Average score of 3.4 to 4.4)									
DnB NOR Bank	Aa2		AA-	WD	3.50	2	£85m	£60m	#N/A
Handelsbanken PLC	NR		AA-	AA	3.50	2	£85m	£60m	#N/A
Wells Fargo Bank (sub of Wells Fargo & Co)	Aa1		A+	AA-	3.67	3	£85m	£60m	60.31
Bank of Montreal	Aa2		A+	AA-	4.00	3	£85m	£60m	#N/A
Bank of Nova Scotia (sub of ScotiaBank)	Aa2		A+	AA-	4.00	3	£85m	£60m	#N/A
Canadian Imperial Bank of Comm	Aa2		A+	AA-	4.00	3	£85m	£60m	#N/A
DZ Bank	Aa2		A+	AA-	4.00	3	£85m	£60m	#N/A
Nordea Bank	AA3		AA-	AA-	4.00	3	£85m	£60m	#N/A
ANZ	Aa3		AA-	A+	4.33	3	£85m	£60m	#N/A
Commonwealth Bank of Australia Group	Aa3		AA-	A+	4.33	3	£85m	£60m	#N/A
National Australia Bank	Aa3		AA-	A+	4.33	3	£85m	£60m	#N/A
Rabobank Nederland	Aa2		A+	A+	4.33	3	£85m	£60m	#N/A N/A
SEBanken	Aa3		A+	AA-	4.33	3	£85m	£60m	#N/A
Union Bank of Switzerland	Aa3		A+	AA-	4.33	3	£85m	£60m	#N/A
Westpac Banking Corp	Aa3		AA-	A+	4.33	3	£85m	£60m	#N/A
£80 million (Category 5 - Average score of 4.4 to 5.4)									
Helaba Bank (Landesbank Hessen-Thuringen)	Aa3		NR	A+	4.50	2	£80m	£50m	#N/A
BNP Paribas	Aa3		A+	A+	4.67	3	£80m	£50m	49.81
Citibank NA London	Aa3		A+	A+	4.67	3	£80m	£50m	#N/A
Credit Agricole	AA3		A+	A+	4.67	3	£80m	£50m	46.59
Credit Agricole CIB (sub of Credit Agricole)	Aa3		A+	A+	4.67	3	£80m	£50m	46.59
Credit Industriel et Commercial (sub of Credit Mutuel)	AA3		A+	A+	4.67	3	£80m	£50m	#N/A
Credit Mutuel	Aa3		A+	A+	4.67	3	£80m	£50m	#N/A

HSBC Bank UK plc (sub of HSBC Holdings plc)	A1	A+	AA-	4.67	3	£80m	£50m	#N/A
HSBC Bank plc (sub of HSBC Holdings plc)	A1	A+	AA-	4.67	3	£80m	£50m	#N/A
ING Bank (sub of ING Group)	A1	A+	AA-	4.67	3	£80m	£50m	#N/A
Bank of New York Mellon	A1	A	AA-	5.00	3	£80m	£50m	#N/A
Bank of Scotland plc (subsidiary of Lloyds Banking Group plc)	A1	A+	A+	5.00	3	£80m	£50m	#N/A
Goldman Sachs Investment Bank	A1	A+	A+	5.00	3	£80m	£50m	#N/A
KBC Bank	A1	A+	A+	5.00	3	£80m	£50m	#N/A
Lloyds Bank plc - (sub of Lloyds Banking Group Plc)	A1	A+	A+	5.00	3	£80m	£50m	#N/A
Shinhan Bank	Aa3	A+	A	5.00	3	£80m	£50m	#N/A
Standard Chartered Bank	A1	A+	A+	5.00	3	£80m	£50m	41.94
State Street Corp	A1	A	AA-	5.00	2	£80m	£50m	#N/A
Barclays Bank UK Plc - (sub of Barclays Plc)	A1	A	A+	5.33	3	£80m	£50m	93.04
Barclays Bank Plc - (sub of Barclays Plc)	A1	A	A+	5.33	3	£80m	£50m	93.04
J P Morgan Chase & Co	A1	A-	AA-	5.33	2	£80m	£50m	59.55
Lloyds Bank Corporate Markets	A1	A	A+	5.33	3	£80m	£50m	#N/A
National Westminster Bank (Ring-Fenced entity, sub of Natwest Group)	A1	A	A+	5.33	3	£80m	£50m	#N/A
Nationwide BS	A1	A+	A	5.33	3	£80m	£50m	#N/A
Santander UK plc - (sub of Banco Santander) £70 million (Category 6 - Average score of 5.4 to 6.4)	A1	A	A+	5.33	3	£80m	£50m	#N/A
Landesbank Baden Wurttemberg	Aa3	NR	A-	5.50	2	£70m	£45m	#N/A
Norinchukin Bank	A1	A	WD	5.50	2	£70m	£45m	#N/A
NatWest Markets (Non-Ring-Fenced entity, sub of Natwest Group)	A1	A-	A+	5.67	2	£70m	£45m	#N/A
Mitsubishi UFG Bank (sub of Mitsubishi UFJ Financial Group)	A1	A	A-	6.00	3	£70m	£45m	#N/A
Mitsubishi UFJ Trust and Banking Corp (sub of Mitsubishi UFJ Financial Group)	A1	A	A-	6.00	3	£70m	£45m	FALSE
Mizuho Bank Ltd	A1	A	A-	6.00	3	£70m	£45m	#N/A
Societe Generale	A1	A	A-	6.00	3	£70m	£45m	56.74
Sumitomo Mitsui Banking Corp Int (sub of Sumitomo Mitsui Financial Group)	A1	A	A-	6.00	3	£70m	£45m	#N/A
Sumitomo Mitsui Banking Corp London (sub of Sumitomo Mitsui Financial Group)	A1	A	A-	6.00	3	£70m	£45m	#N/A
Sumimoto Mitsui Trust Bank	A1	A	A-	6.00	3	£70m	£45m	29.08
Wells Fargo & Co	A1	BBB+	A+	6.00	2	£70m	£45m	60.31
Mizuho Financial Group	A1	A-	A-	6.33	2	£70m	£45m	#N/A

£45 million (Category 7 - Average score of 6.4 to 7.4) and UK Building Societies Score <10.5 UK Building Societies

Coventry Building Society	A2	NR	A-	6.50	2	£45m	£25m	#N/A
Leeds Building Society	A3	NR	A-	7.00	2	£45m	£25m	#N/A
Principality Building Society	Baa2	NR	BBB+	8.50	0	£45m	£25m	#N/A
Skipton Building Society	A2	NR	A-	6.50	1	£45m	£25m	#N/A
Yorkshire Building Society	A3	NR	A-	7.00	1	£45m	£25m	#N/A
Nil (Category 8 - Average score above 7.4)								
Credit Suisse	A3	A-	BBB+	7.33	0	nil	nil	296.61
Ø ING Group	BAA1	A-	A+	6.67	1	nil	nil	#N/A
Lloyds Banking Group plc	A3	BBB+	A	7.00	2	nil	nil	#N/A
Danske Bank (SUSPENDED)	A2	A+	A	5.67	2	nil	nil	#N/A

Where WD - rating withdrawn; NR - not rated

Ø Average Short term rating of P-2 results in category downgrade; or lending limited to overnight and call deposits and up to at maximum of £20 million if category 7

PROPOSED ADDITIONS

PROPOSED DELETIONS

## EXECUTION FACTORS

Reference Page 5 (3. Execution Factors) Northern Trust Order Execution Policy.

## SPECIFIC INSTRUCTIONS

Where a specific client instruction is received in respect of an order, EIM will communicate the instructions to Northern Trust or the relevant Epworth Cash Plus Fund deposit takers. In doing so, EIM will have deemed to fulfil its Best Execution obligation. Where instructions relate to only part of an order, EIM will communicate this to NT in accordance with this Policy to those aspects of the order not covered by the specific instruction. It should be noted that following specific client instructions those instructions may prevent achievement of the best possible result of the execution of those orders.

## MONITORING OF POLICY AND ARRANGEMENTS, AND REVIEW PROCESS

EIM monitors the effectiveness of its execution arrangements and this Policy in order to identify any deficiencies. This Policy will be reviewed no less than annually and is available on the EIM Website. ([www.epworthinvestment.co.uk](http://www.epworthinvestment.co.uk))



Best Execution monitoring will be determined via Bloomberg BTCA (Bloomberg Transaction Cost Analysis) platform via Northern Trust (NT) and via an external firms data. On quarterly basis, NT will deliver Best Execution monitoring data via an external firm with root cause analysis attached. This will provide the basis on which EIM will determine its Best Execution quality.

### **Identification and management of conflicts of interest**

EIM maintains organisational arrangements that identify conflicts and potential conflicts of interest that exist within the Firm and the procedures and controls that have been adopted to manage these conflicts. These arrangements are subject to review and approval by the Compliance Officer. Individual employees are permitted to trade securities for their own accounts, in which case, the individual must follow the procedures, which are designed to prevent individuals from engaging in personal transactions that may compete or interfere materially with the trading of client accounts. It requires individual employees to report their personal securities transactions to the Compliance Officer for review. (Reference: *Personal Account Dealing Policy*).

Furthermore, individuals are required to:

- Seek prior approval to any personal trade.
- Receive approval prior to any personal trading.
- Provide copies of contract notes to the Compliance Officer.

An area where a conflict of interest potentially arises is in the placing of orders for multiple clients and the subsequent fair allocation of trades. With reference to the *Order Allocation Policy*, the risk of unfair treatment is minimised by the procedures employed by EIM's fund managers and the communication to NT. The allocation of executed trades when completed in full is allocated to participating clients without delay unless there is significant reason for not doing so.

### **Aggregation of Orders**

EIM will carry out a client order in aggregation with another client order when EIM is satisfied that each client is treated fairly and to do so would not disadvantage either client. Aggregated orders will be allocated in accordance with EIM's *Order Allocation Policy*. It should be noted that EIM do not generally aggregate orders.

### **Order Allocation Policy**

For orders across multiple funds where there is a partial execution, allocation is always made on a pro rata basis (with respect to the orders placed, not the size of the relevant funds). However, if that results in a holding which, in the relevant fund managers opinion, is too small to be suitable (for example, it is below minimum market size or would incur disproportionate costs to the client) then the relevant fund may be excluded from the allocation. The basis of that re-allocation is recorded within our order management system.

## **SENIOR MANAGEMENT OVERSIGHT**

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Under MiFID II, Article 27 (4) and (7), EIM has an obligation to monitor the effectiveness of its order execution arrangements and its Policy, including the execution quality of its transactions.

To assist the review process, EIM has put in place the necessary processes aimed at meeting this obligation. This may include the following:

- A quarterly Best Execution monitoring working group with NT, to include outlier monitoring and root cause analysis with narrative.
- Performance monitoring – The Compliance Officer will ensure NT meets EIMs Best Execution requirements, the results of which will be highlighted at Epworth Board meetings.
- This Policy will be reviewed annually, and Epworth Board approval sought.