

StormHarbour Securities LLP

## **Order Execution policy**

**Date:** January 2018

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This document outlines the Order Execution Policy of StormHarbour Securities LLP (hereinafter called 'StormHarbour'). StormHarbour have an obligation to take all sufficient steps to obtain the best possible results for its Professional clients.

The second markets in financial instruments directive, hereafter MiFID II, outlines terms, conditions and processes relating to the obligations of Investment Firms to execute their clients' orders. In compliance with MiFID II, and as part of our existing operating guidelines, StormHarbour has designed our Order Execution Policy to achieve the best possible outcomes for clients when executing their orders to trade.

This Order Execution Policy only applies to our Professional clients. StormHarbour does not offer services to Retail clients. StormHarbour will endeavour to act in the best interest of our clients that are Eligible counterparties and will generally adhere to the spirit of the execution standards described in this document in relation to such entities.

### **Financial Instruments**

On the liquid side, we deal primarily in corporate and government bonds, while our dealing in illiquid instruments primarily encompasses asset-backed securities, mortgage backed securities, collateralised loan obligations, collateralised debt obligations and other distressed credit and asset-backed securities.

### **Execution factors**

StormHarbour will take into account the following execution factors when seeking to obtain the best possible result for the client:

- **Price:** It is our general policy that price is a central part of achieving best execution for our clients. For liquid products, we obtain price information from a variety of sources, including market makers. With illiquid products we take steps to fairly value products where market prices are sometimes not available;
- **Costs:** For liquid products, cost is a secondary factor: we sometimes realise a bid/ask margin and other times we receive a spread "on top of" the pre-agreed price. With illiquid products, our margin or fees for such business reflect our costs for sourcing, analysing and structuring, identifying liquidity, as well as the number of resources and amount of time that we invest in each transaction;
- **Speed of execution:** although we seek to execute all transactions with due speed, this factor is sometimes of secondary importance, especially where trades are particularly tailored to our client's needs;
- **Size:** the size of an order may affect price of execution
- **Likelihood of execution and settlement:** settlement failure is unusual in our trades, reducing the need to consider it on a trade-by-trade basis. Any issues in this sphere would be discussed in the monthly trader meeting to discuss Best Execution, where changes to the process would be considered if such failures became an issue;
- **Liquidity:** In certain cases, finding a buyer or seller might be difficult because of limited market liquidity. In such circumstances, liquidity becomes an important execution factor rather than price.

We will take into account specific instructions that come from a client when we assess any of the above execution factors. Clients should be aware that the provision of specific instructions may, in certain circumstances, prevent us from taking sufficient steps to obtain the best possible result.

Annex I outlines the priority of execution factors and execution venue per asset class.

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## Execution criteria

In deciding the importance of the above execution factors, StormHarbour will take into account the characteristics of the:

- **Client** (i.e. Professional and Eligible counterparty): Our clients' needs can vary considerably, which in turn means that what constitutes best execution can change from client to client. For example, the needs of clients can differ depending on whether they are trading liquid or illiquid securities.
- **Order type**: The nature of an order will often dictate how we execute. For example, in distressed market conditions, larger orders will often require us to prioritise liquidity, rather than price. Similarly, where clients have specific price needs, this can limit our ability to execute promptly.
- **Financial instruments that are the subject of the order**: We deal in both liquid and illiquid assets. For assets sold in more liquid markets, we can focus on prompt execution and price. In illiquid markets, while price and speed remain a consideration, the focus is on finding the requisite liquidity to execute.

## Execution methodology

For liquid products, our clients come to us with a need in the first instance. That is to say, they are looking for a counterparty with whom they can trade a particular product. In our capacity as riskless principal, we approach our institutional clients to see if they can meet the order's terms, and trade such securities either on a pre-agreed price or on a bid/ask basis.

For illiquid products, a key first step for such products is finding a valuation, a task made necessary by the lack of a visible market, inadequate/complex documentation or impaired credit value. Once we have found a potential counterparty to the trade, we engage in price discussions. We will often facilitate a negotiation between the two counterparties. Facilitation of this phase is an important part of achieving Best Execution for such products. With such products lacking a visible market and deriving their value from relatively distinct factors, the price discovery process is gradual and complex and the final price achieved with buyer and seller is driven by the format, documentation, inherent credit value, structure and size of the asset as well as the client instructions and market conditions at time of execution.

To achieve best execution, we will consider the factors and criteria above when implementing our trading methodology. Where you have given us specific instructions, this will drive our approach. Otherwise, we will use our understanding of the market and our understanding of your needs to achieve the best result for you. We will adapt our approach based on your needs and the market conditions at the time of execution.

## StormHarbour as execution venue

StormHarbour executes orders over-the-counter (OTC) on a riskless principal basis, acting therefore as the execution venue for all trades. Our core business is to source, arrange and place credit and structure intensive bonds predominantly in the structured finance space. Most of the products we trade are not readily available and often require heavy analysis and a restructuring effort. The origination and distribution part of our business typically entails reliance on client interaction and complex negotiations that can be best served away from organised trading venues. The buyer and seller with whom we interact become counterparties to trades completed at StormHarbour.

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### **Monitoring and review**

StormHarbour will monitor the effectiveness of its execution arrangements and execution policy, and where appropriate, incorporate any amendment to procedures. We will review our execution arrangements and execution policy on an annual basis or whenever a material change occurs that affects our ability to continue to obtain the best possible result for the execution of client requirements on a consistent basis. When a material change occurs, we will update this Order Execution Policy and publish any material changes to our execution arrangements.

### **Consent**

We execute orders on an OTC basis. **By agreeing to our terms of business, clients consent to having orders executed on an OTC basis.** In addition, having provided this document to all our clients through our website, we will infer consent to our Best Execution policy, where a client sends us an order.

## Annex I – Priority execution factors and execution venue per asset class

Asset Class	Product Type	Execution Venue	Liquid Market	Illiquid Market	Other Considerations
<b>Bonds</b>	Government Bonds, Corporate Bonds	StormHarbour Securities LLP	Price Size Likelihood of Execution  Costs  Speed Other considerations	Size Price Speed  Costs  Likelihood of Execution Other considerations	Market conditions, Client instructions, Product characteristics and complexity of transaction
<b>Structured finance products</b>	RMBS, CMBS, CLO/CDO, ABS, CLN	StormHarbour Securities LLP		Size  Price  Speed Costs Likelihood of Execution Other considerations	Client instructions; Product characteristics and complexity of transaction; Pricing analysis; Structuring considerations; Market conditions