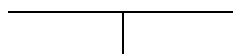


# Appendices: E- Order Handling Procedures - OTC Derivatives

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## (I) PURPOSE

This order handling procedures manual provides information on when, where and how Pictet Asset Management (PAM) delivers best execution when it executes or places all OTC derivatives orders' types such interest rate swaps, credit default swaps, total return swaps and other OTC options. In addition, it covers repurchase agreements (herein referred to as 'repo') and reverse repurchase (herein referred to as 'reverse repo') on behalf of a Professional Client.

This manual should be read as a supplement to the PAM Best Execution Policy, which is available from your usual contact, on request.

## (II) ORDER GENERATION AND CAPTURE

The best execution process for OTC derivatives orders starts with the Portfolio Manager selecting the order type, which most closely reflects their objective and urgency for the trade. The order type along with any additional order instructions provided by the Portfolio Manager informs the trader as to the Portfolio Manager's intentions for the trade.

This information enables the trader to select the most appropriate trading strategy for the order to achieve best execution.

In the case of repurchase agreements, upon the initiation of the order by the Portfolio Manager, pending settlement or settled status of an underlying Cash bond transaction (herein referred to as a 'cash trade'), the Treasury team will look to adopt the most efficient liquidity (asset and liability) provisioning of the fund as it pertains to single or multiple positions of the underlying portfolio. This may involve the use of reverse repo in order to provide asset side liquidity (short selling) and repo in order to provide liability side liquidity.

## (III) ORDER HANDLING

The order will be sent to the PAM OMS (Order Management System). When the order is received in the PAM OMS trading blotter, it will be claimed by a trader, who is then responsible for assessing the pre-trade execution factors and determine the most appropriate method of execution and trading strategy. In the case of repo and reverse repo, the repo trading desk instruct these orders by a combination of phone call or market messaging services.

### (a) Pre- Trade Analysis

PAM believes that OTC derivatives should be assessed for best execution throughout the whole process and all execution factors, as set out in section 4 of the PAM Best Execution Policy, will take equal or greater importance dependent on conditions.

In addition to the execution factors set out in section 4 of the PAM Best Execution Policy, the trader will take into account various pre-trade execution factors that influence the execution method and the trading strategy selected. These include but are not limited to:

- › The liquidity profile of the instrument (including size of order);
- › The urgency of the order;



- › The investment style of the fund or account to which the order relates;
- › The current market circumstances;
- › Which counterparts have the necessary legal documentation in place (such as ISDA agreement or GMRA documentation)
- › In the case of repo and reverse repo transactions;
  - The associated repo or reverse repo rate
  - The associated repo or reverse repo haircut
  - The current guidance from the Credit Risk Committee as it pertains to agreed repo counterparty exposure limits
  - The underlying source of the liquidity provision
  - Diversification of the liquidity provision
  - Likelihood of settlement of the liquidity provision
- › Any other execution factors deemed relevant by the traders.

The traders have at their disposal various tools, such as those available in PAM OMS, including the Best Execution Dashboard and live market data, which can be used to augment their understanding of the pre-trade execution factors and help them make better-informed trading decisions. The Best Execution Dashboard is a data base that contains historical trading data, which acts as a useful guide for the traders to help them prepare their trading strategy. The traders can dynamically search with whom they have executed, in what size and what side (buy or sell) for a specific OTC derivative. This dashboard helps traders to quickly ascertain particular trading flows and patterns with PAM counterparts on an historical basis.

Using the tools available and their skills and experience, traders will use a multi RFQ or a single RFQ as deemed required for various reasons which will include; size of order, relative liquidity of the instrument, and order type. It is likely that the less liquid and/or larger in size will lead a dealer to do a single RFQ, as this will create less of a footprint in the market (for OTC derivatives). For repo and reverse repo the converse is true to ensure optimal, diverse and lower settlement risk liquidity provision per aforementioned execution factors.

The relative importance of each execution factor is particular to the circumstances surrounding each order. The trader will use their skill and experience to make their assessment of the pre-trade execution factors with the objective of optimising the method of execution.

Ordinarily, price together will merit high relative importance in obtaining best execution, but this may be tempered, for example, where the size of the trade is large compared to the liquidity available, or where speed of execution is paramount.

### **(b) Setting the Trading Strategy**

Before orders are executed or placed, the trader will consider the various execution methods available to determine the most appropriate trade implementation strategy.



This decision will be based primarily on the characteristics of the order and the relative importance of the execution factors. (See above)

PAM has a wide network of broker-dealer counterparties which share with us their liquidity.

The trader has a variety of alternative execution methods they can examine including but not limited to:

- › Executing the order through a multi-requests for quote (RFQ)
- › Executing the order through a single RFQ

For worked orders, the trader will use market information and their experience to select a counterparty for working all or part of the order on an agency basis, ensuring minimal market impact costs.

For requests for quotes, the trader usually transmits a single RFQ directly to selected counterparties based on market data, legal documentation and the trader's experience.

### Brokers and Counterparties

Our policy is to take sufficient steps to determine that when placing orders with a broker or other entity, the entity has adequate arrangements that will enable PAM to comply with its best execution obligations.

If the broker or other entity is subject to the MiFID requirements, the fixed income trading desk will look to obtain and review appropriate information on their order execution policy and execution arrangements and ensure that PAM is treated as a Professional Client of that entity.

If the broker or other entity is not subject to MiFID, the relevant trading desk will take sufficient steps to satisfy themselves that the entity has execution arrangements that allow PAM to comply with its overarching best execution obligations. In any event, where the desk cannot satisfy themselves of the above matters, they will not use that entity.

PAM has a wide network of approved brokers and other counterparties, which the trader can use to place orders. The trader will select the most appropriate broker or counterparty based on their access to the relevant execution venues, their expertise and their understanding of PAM's trading objectives, as well as their ability to minimise market impact. The nature of the OTC derivatives and repurchase agreements means that they are only traded for clients where the appropriate legal documentation is in place between the client and counterparties. This can limit the number of counterparties available for some clients.

All OTC derivatives orders are sent to approved brokers from PAM OMS. However, the majority of OTC transactions are not submitted via FIX connection.

Execution fill data, if received electronically, routes back into PAM OMS without any need for re-keying of data.

## (IV) MONITORING TRADING EFFICIENCY

### (a) Real-time Monitoring of Orders

The traders conduct real-time monitoring of each order throughout its lifecycle using a variety of order and market monitoring tools, including the PAM OMS.



Traders also have access to real-time market data that can be used to determine the estimated difficulty of the order, which enables them to set the most appropriate trading strategy.

### (b) Post-Trade Monitoring

Orders are subject to post-trade monitoring, which comprises order handling exception reports or sample-based testing. An example of an exception report would be if a trader having asked for 3 quotes in the market did not trade with the best price. Trade exceptions are highlighted and investigated initially by the Fixed Income trading team. Additional controls are performed by the Operations and by Compliance Departments to assess the effectiveness of the monitoring process.

In the case of repo and reverse repo, post execution economic and exposure analytics are captured and regularly reviewed by the trading desks to identify anomalies, amongst other aspects.

Following implementation of MIFID 2, we expect in the future the scope and quality of data to be enhanced. Although currently difficult to predict, we will follow the data availability as it progress and take those into account where possible.

### PAM Fixed Income Trade Execution Committee

The purpose of the PAM Fixed Income Trade Execution Committee is to oversee PAM's trade management Policies and Procedures for fixed income. The committee also assesses and evaluates the trading strategies adopted by PAM traders and brokers to ensure that the explicit and implicit costs of trading are being managed / controlled effectively across the desk.

The Committee meets on a quarterly basis.

## VERSION CONTROL

VERSION NUMBER	DATE	PERSON RESPONSIBLE	RATIONALE FOR CHANGE
1	January 2018	Simon Greaves	Introduction to Policy
2	January 2019	Simon Greaves	Annual Review
3	January 2020	Simon Greaves	Annual Review
4	January 2021	Simon Greaves	Annual Review