Best Execution and Order Allocation Policy

Introduction and Purpose

Kestrel Partners LLP ("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 Order Allocation Policy (the "Policy") sets out how Kestrel ensures that all sufficient steps are taken to obtain best possible result for all clients and that orders on their behalf 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.

Application

The Policy applies to Kestrel when placing or transmitting client orders with brokers for execution. Given the current mandates the Policy covers equities only and mainly relates to trading in SME companies. The Policy does not apply to the extent Kestrel follows specific instructions from a client when executing client orders.

Best Execution

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 - all clients are professional clients;
- The characteristics of the client order, where relevant; and
- The characteristics of the execution venues to which the 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.

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 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 Investment Committee. Kestrel does not invite its clients to choose the brokers with whom it trades but a client may require us to seek their approval prior to adding a new broker. The Approved List is made available to clients upon 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 staff must not place orders with a broker that has not been approved unless there are exceptional circumstances. Any execution of a 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.

Client notification/consent requirements

Kestrel makes the Policy available on its website. If Kestrel makes any material changes to the Policy (whether pursuant to the review process or otherwise), it will provide its clients with the updated version.

Order Allocation

General Obligation

Kestrel has implemented procedures and arrangements which provide for fair allocation of orders when it conducts transactions involving several clients in the same security. These procedures and arrangements, that Kestrel has implemented to meet these obligations, are set out below:

Allocation Factors

The nature of Kestrel's 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. This is dependent on the cash available for investment in each client account or by a client's agreement to make additional cash available.

Trades are allocated to clients on a basis believed to be fair and equitable; no client receives preferential treatment over any other.

In determining the suitability of each investment opportunity to a client, consideration is given to a number of factors i.e. the client's investment objectives and strategies, their 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 with the exception of de minimis executions (Kestrel takes into account the materiality of the trade and considers the level of settlement costs in making an allocation).

Kestrel will only in highly exceptional cases trade for its own account. In these instances client allocations will be filled first or at the same price.

Order Handling

If an order is made on behalf of one client only, it is executed in the normal manner adhering to the Best Execution requirements 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. Our brokers will, however, often warehouse trades up until the end of a week. This reduces settlement costs.

Aggregation and Allocation of Orders

Kestrel does 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.

Kestrel allocates aggregated orders 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.

Details of the process of allocation for each client type are set out in Appendix 2.

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 i.e. when the trade is de minimis. 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 reallocated. These are now maintained in our Order Management System, Alphadesk. Fills are maintained in Bloomberg's EMSX. Trades details are also copied into our comms database held in SteelEye's IRIS portal.

Procedures

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

Front Office Monitoring

The systems necessary to record and monitor orders and executions as well as the links with the middle office and custodian lie within the front office. Therefore, all orders must be made through the front office i.e. by the Fund Managers or the Trader. Additionally, all confirmations are passed to the front office.

It is solely the job of the front office to monitor the quality of executions, ensure compliance with FCA regulations and to also ensure procedures are adhered to. The authorised traders i.e. the Fund Managers and the Trader are certified staff. The relevant names are communicated to Kestrel's brokers as the only authorised traders.

The front office is responsible for accurately maintaining the required details, from a regulatory perspective, of all orders and trade confirmations.

Compliance Monitoring

The compliance monitoring process involves a regular 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 trader who effected the transaction and determine whether, bearing in mind the other factors that the Fund Managers/Trader 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 Fund Managers/Trader 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's 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 review 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 21 June 2023.

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 approved by the Investment Committee. For smaller orders, the Fund Managers/Trader will on many occasions consider that price is the most important execution factor. Other execution factors are permitted to be taken into account having considered the size and nature of the relevant order (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 Fund Managers/Trader will select a broker from the Approved list that, in their 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 Fund Managers/Trader 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 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.

Appendix 2: Allocation methodology per client type

Client types

- KOF & KOF-like Endowment Accounts
- Other KOF-like accounts (<£2m AUM)
- Single stock managed accounts

Allocations to clients will be based on the relevant Delegated Authority for each stock for each client, generally these will be the same but some clients may be fully invested (e.g. >10% of NAV) or restricted under their mandate.

In general:

Buy allocations depend on cash availability; and
Sell trade allocations are always split pro-rata on the basis of shares held, except if the sell is for a specific account raising cash e.g. for a redemption. In this case the delegated authorities for the specific client would be different to other clients.

The specifics regarding Buy trades are as follows:

KOF & KOF-like Endowment Accounts
The allocation percentages for Buy trades for these clients are agreed at the start of each week by the Investment Team. Changes to each stock's allocations are documented in a schedule following that meeting. In general the aim, depending on available cash, is to ensure that positions are split pro-rata based on cash as a percentage of NAV. This can change over time due to trading and subscriptions & redemptions. Some positions may, however, be split differently due to mandate restraints e.g. the 10% of NAV restriction.

If the trades are of de minimis consideration, (<£50,000) the trade is allocated, generally to one client only, at the Fund Managers'/Trader's discretion. The cost of settlement at each account's custodian, which is generally a fixed cost per trade, will be taken into consideration.

Any departures from the allocations splits, agreed at the Investment Team's weekly meeting, must be approved by Compliance, where possible, in advance of placing the order.

Other KOF-like accounts held in Jarvis client accounts('Jarvis KOF-like accounts')
All other managed KOF-like accounts are held in Jarvis client accounts. They all currently have <£2m in AUM. If a new Jarvis KOF-like account is opened then the mandate requires us to put the KOF-like portfolio in place reasonably promptly, to the extent possible. Buys trades in current KOF stocks will, therefore, be allocated to this new account as a priority.
Once the portfolio is in place and cash becomes available e.g. through dividends or sales then further Buy trades will be allocated across all KOF & KOF-like accounts on a pro-rata basis taking into account targeted holding percentages. As above de-minimis trades may be allocated to one or more of the Jarvis KOF-like accounts.

Single Stock accounts
The single stock accounts are generally only funded as and when they are making an investment (by definition in a single stock) and, therefore, rarely have available cash for investment. The exception is when dividends are paid. Most initial investments are made as part of a placing for the specific investee company and the client will have expressed a wish to take part in the placing, having agreed to fund their account up to a specific amount. Allocations in respect of these placings are agreed and approved at ad-hoc Investment Committee meetings and can involve KOF and KOF-like accounts. The Investment Committee will make the allocation decision based on cash available and concentration of position in each account.

Where single stock positions are built up in the market the trades must be allocated between all clients that have a delegated authority to purchase the position.

Reinvestment of dividends by single stocks will generally be executed on the first trading day after receipt, given the mandate is to keep them fully invested. If there are trading restrictions e.g. some stocks may need Directors' dealing permission and may be in close periods, then the trade will be executed as soon as the restriction is lifted.

Cross trades
Shares can be crossed between accounts for instance when an account is needing cash and another accounts is building a new position. The purchase allocation of these cross trades follows the above methodology. All cross trades must be executed through a broker (to ensure post trade reporting takes place) and generally executed at mid-market at the time the order is placed. Exceptions to mid-market must be approved in advance by the Chief Compliance Officer.

The Fund Managers/Trader must request by email approval from Compliance for any proposed departures from this allocation methodology, prior to trading. Compliance may escalate the issue to the Investment Committee prior to either approving or declining the request.