

Best Execution

Application

This policy is applicable to Fair Oaks UK and Fair Oaks US.

Policy

Fair Oaks expects all staff members to act in accordance with the policy below at all times. Fair Oaks acts in the best interest of its client(s) when executing orders or placing orders with other entities for execution on their behalf. To ensure that the Firm takes all sufficient steps to obtain the best possible result for its clients on a consistent basis, it considers the best choice of counterparty/venue for each transaction in the context of the relative weighting of importance it attributes to the execution factors, taking into account:

- The characteristics of the client;
- The characteristics of the client order;
- Characteristics of the financial instrument that are subject to that order; and
- Characteristics of the execution venues to which that order can be directed.

The execution factors ("Execution Factors") in order are:

- price;
- cost;
- speed;
- size and or nature of the transaction;
- likelihood of execution and settlement; and
- any other considerations which the firm believes to be relevant to effecting the execution of the Order.

The FCA expects that ownership of best execution monitoring resides with the front-office. The second line of defence i.e. the Compliance Function should be adequately equipped to challenge the conclusions reached by the execution desks in order to mitigate the potential for conflicts of interest that may result from front-office staff providing the sole scrutiny of their own performance.

The factors taken into account by Fair Oaks and the weighting given to those factors can be expected to vary according to, among other things, the different markets, instruments and order types involved. Price will ordinarily merit a high relative importance in obtaining the best possible result. However, for some client orders, financial instruments or markets, Fair Oaks may determine as part of an overall assessment that other Execution Factors ought to be granted a higher weighting of importance than price in obtaining the best possible execution result, particularly when there is only a minor difference in price. For example, in illiquid instruments, and in situations where the Firm is investing in primary market securities where there is only one possible execution venue the fact of execution may itself constitute best execution.

Fair Oaks generally invests in senior secured loans, bonds and the notes of Collateralised Loan Obligations (“CLOs”). When investing on behalf of clients, Fair Oaks will determine the relative importance of the Execution Factors by using its commercial judgment and experience, in light of market information available and taking into account the criteria below:

- a) the objectives, investment policy and risks specific to the client, as indicated in the relevant rules or articles of association, prospectus, offering documents or partnership agreement;
- (b) the characteristics of the order;
- (c) the characteristics of the financial instruments or other assets that are the subject of that order; and
- (d) the characteristics of the execution venues to which that order can be directed.

Bilaterally negotiated OTC transactions will be undertaken having assessed the market liquidity, size, and nature /characteristics of the intended exposure to be obtained through the underlying instrument prior to engaging with an appropriate counterparty(ies) at the discretion of the investment professionals involved in the order execution. The relevant portfolio manager will use their experience to firstly determine which individual counterparty has the necessary capability and market presence to transact in relevant size and provide terms best suited to comply with the Firm’s Best Execution Policy. The portfolio manager will again use their experience and market knowledge to assess and evaluate what is a reasonable price for the trade, making reference to available data on market pricing of comparable instruments, where possible.

Below is the current list of approved counterparties¹ by each class of instrument in which Fair Oaks may execute transactions on behalf of its clients. An up to date list of approved counterparties may be requested from the Firm’s Chief Compliance Officer.

Fixed income, including CLO securities, loans and Treasuries

1. Credit Suisse Securities (USA) LLC
2. Merrill Lynch International
3. Goldman Sachs International
4. Morgan Stanley & Co International plc
5. Jefferies International Limited
6. J.P. Morgan Markets Limited
7. Deutsche Bank Securities Inc
8. Cantor Fitzgerald & Co.
9. Citigroup Global Markets Limited
10. BNP Paribas Securities Corp.
11. Barclays Capital Inc.
12. MUFG Securities Americas Inc..
13. Wells Fargo Securities International Limited
14. StormHarbour Securities LP

¹ In certain circumstances trades may be placed with an affiliate of an approved counterparty

15. Guggenheim Securities, LLC
16. Seaport Global Securities, LLC
17. Brean Capital, LLC
18. KGS-Alpha Capital Markets, LP
19. SG Americas Securities, LLC
20. Natixis
21. Numis Securities Limited
22. ED&F Man Capital Markets Inc.
23. Banca IMI S.p.A.
24. BayCrest Partners, LLC
25. Nomura International plc
26. Odeon Capital Group LLC
27. RBC Capital Markets, LLC
28. Robert W. Baird & Co. Incorporated
29. Greensledge Capital Markets LLC
30. Natwest
31. Stifel, Nicolaus & Company, Inc

Foreign Exchange Derivatives

1. BNP Paribas Securities Services S.C.A.
2. RBC Investor Services Bank S.A.
3. The Royal Bank of Scotland International Limited

Specific Instructions

Typically Fair Oaks will not receive specific instructions from clients as to how an individual transaction should be effected. If Fair Oaks should accept such instructions, those instructions will take priority over this policy and Fair Oaks' duties of best execution and may prevent it from achieving the result it would have achieved in the absence of such instructions.

Fair Oaks provides all its clients for which it undertakes trade execution with a copy of its best execution policy.

The relative importance of the execution factors are judged on an order-by-order basis in line with the Firm's industry experience and prevailing market conditions. However common key factors for relevant asset classes have been identified as follows:

Structured Finance Products

Primary Market Trades

Fair Oaks may purchase CLO securities newly issued in the primary market for which there is only one venue available for execution. Best execution is considered to be achieved for primary market trades due to the fact that there are no other available execution venues.

Secondary Market Trades

CLO securities may instead be bought, and will generally be sold, in the secondary market either through (i) bids wanted in competition or “BWIC” auctions; or (ii) “Inventory Trades”.

A BWIC is an auction whereby the potential seller will solicit bids from the entire market and potential purchasers will submit their bids through participating banks. As a seller, Fair Oaks will receive a best bid from each bank participating in the BWIC auction and may accept the best bid received across all participating banks. As a winning bidder in a BWIC, Fair Oaks may pay the participating bank an additional fee for their service on top of the price paid to the seller.

An Inventory Trade will typically occur where a bank holds CLO securities on their balance sheet or “inventory” and such securities are offered to their clients. Fair Oaks typically attempts to negotiate the price of an inventory offer. Alternatively Fair Oaks may approach a bank or banks to sell CLO securities without conducting a BWIC auction. Banks may approach one or a handful of prospective buyers to obtain bids for those securities or purchase them for the bank’s own balance sheet.

Fixed Income (Treasuries)

Where the Firm executes orders directly (i.e. over the counter (“OTC”) transactions), key factors will be price and transaction costs.

For indirect orders, costs and existing broker relationship will typically be important considerations.

Where the Firm deals in OTC products (with the exemption of CLO products, for which the process is noted above), it must take into account external market data and externally verifiable reference prices (where available), when pricing or checking the price of OTC products (including bespoke instruments). These checks must be recorded to assist the Firm in monitoring its best execution arrangements.

Derivatives (FX Derivatives)

FX transactions, which are conducted for hedging purposes, are executed directly/indirectly, relevant factors are costs and the availability of banks/brokers to trade and the terms offered, e.g. any collateral requirements, difference between offered FX rate and screen rate..

The brokers which have been approved by the Best Execution Committee for Fixed Income (including CLO securities, loans and Treasuries) and for Foreign Exchange Derivatives are specified in the aforementioned lists. All orders must be placed with a broker from the relevant list.

Fair Oaks UK continually (and formally at least annually) reviews the effectiveness of this policy and its execution arrangements to identify and, where appropriate, incorporate any changes to enhance the quality of execution obtained.

Fair Oaks UK provides all its clients with a copy of its Best Execution Policy (otherwise known as an Order Execution Policy) and confirms their consent in writing (or by email) to it prior to the provision of services.

Fair Oaks UK shall notify its clients of any material changes to this policy. A change is material where it would affect the best execution parameters and/or its disclosure is necessary to enable clients to make a properly informed decision about whether to continue utilising the services of the Firm.

Publication of top execution venues and summary analysis of execution quality

On an annual basis, Fair Oaks UK summarises and makes public, for each class of financial instrument, the top five entities in terms of trading volumes where the Firm transmitted or placed orders for execution in the preceding year.

In addition to the above, Fair Oaks UK publishes for each class of financial instrument, a summary of the analysis conducted and conclusions drawn from the monitoring of the execution venues utilised. Specifics of what the analysis is to cover include:

- relative importance the Firm gave to the execution factors when assessing quality of execution;
- description of any close links, conflicts, common ownerships with respect to any execution venues used;
- description of any specific arrangements with execution venues regarding payments made/received, discounts, rebates or non-monetary benefits;
- explanation of factors that led to a change in the list of execution venues used by the Firm;
- explanation of how order execution differs according to client categorisation; and
- an explanation of how the Firm has used any data or tools relating to quality of execution published by execution venues.

Fair Oaks UK publishes this information on the Firm's website in a machine-readable electronic format available for download by the public.

Procedure

When considering which counterparty/venue to select for a particular transaction, staff must pay due regard to the Firm's Best Execution Policy and in particular the relevant execution factors, as set out in the policy.

Only approved brokers (those listed above) may be used.

If an execution trader would like to use a broker, prime broker or counterparty which has not been approved, they should notify the Compliance Officer of this. The Compliance Officer will discuss the approval of the new counterparty with the execution team and notify the trader of the decision. Under no circumstances must a counterparty be used who has not been approved.

The Compliance Officer will review a sample of trades on a quarterly basis to ensure that they were conducted in accordance with the best execution policy and were such that it was indicative that the best possible result had been consistently achieved for clients. The samples extracted for monitoring will be a representative proportion of the Firm's trading in relevant asset classes over the monitoring period. If any trade sampled was not considered to have achieved best execution, the Compliance Officer will ask the relevant trader/broker to explain why this was the case and make a note of this in the compliance monitoring. An investigation will be conducted when the best execution policy has not been complied with and additional training and/or disciplinary action will be taken where necessary.

Should the Firm's trading activity or the markets in which it operates be such that a number of different brokers are used across different asset classes, the Firm will consider whether it is appropriate to form a Broker Committee with the Compliance Officer as a co-opted member. The Broker Committee would assess the performance and overall quality of service provided by each approved broker. The Broker Committee, should such a body be formed, would approve all brokers (and their terms of engagement) used by the Firm. Brokers would only be added to the list with the consent of the Broker Committee, which will consider factors including but not limited to: credit and counterparty risk; the level of service; and markets covered.

Traders will monitor, on an ongoing basis, the performance of the Firm's counterparties/execution venues. Where a trader is unhappy with the level of service being provided, he/she shall raise it with senior management, who will consider removing the broker from the list of approved counterparties.

Whenever there is no choice of different execution venues the above policy and procedure shall not apply. However, the Firm will retain sufficient information to demonstrate that there was no choice of different execution venues.

The policy will be reviewed on at least an annual basis to ensure it still facilitates obtaining the best possible result for its clients.