Order Execution Policy for Professional Clients

STRICTLY PRIVATE AND CONFIDENTIAL

Contents

1. Introduction

This document sets out the Order Execution Policy for Professional Clients (the “Policy”) for Nomura International plc and Nomura Bank International plc (together “Nomura”, ‘we” or the “Firm”).

As a result of Directive 2004/39/EC of 21 April 2004 on markets in financial instruments (“MiFID”), the UK Financial Conduct Authority (“FCA”) requires investment firms when executing orders on behalf of retail and professional clients (as defined in MiFID, together “Clients”), to take all reasonable steps to obtain the best possible result, taking into account, price, liquidity, costs, speed, likelihood of execution and settlement, size and nature of the order or any other relevant consideration either when executing client orders or receiving and transmitting orders for execution. This requirement is known as the best execution obligation.

This Policy sets out the most relevant aspects of the arrangements that Nomura has put in place to comply with this requirement.

The Policy considers the scope of the obligation in relation to the following classes of financial instrument:

- Equity securities (including exchange traded funds);
- Debt securities; and
- Derivatives (listed, exchange-traded and over-the-counter derivatives);

The Policy sets out the execution factors and the relative importance of those factors which Nomura considers when executing orders on behalf of clients in order to achieve the best possible result on a consistent basis as well as the main types of execution venues that Nomura will use.

The Policy also covers other client order handling matters, such as notification of material difficulties; and client limit orders in respect of shares admitted to trading on a European Economic Area (“EEA”) regulated market.

2. Scope of best execution

The obligation of best execution is owed when Nomura accepts an order to execute a transaction in Financial Instruments (as defined in MiFID) on behalf of a client that Nomura has categorised as a professional client. The obligation does not apply when dealing with a client Nomura has categorised as an eligible counterparty, either generally or for a particular transaction or type of instrument. In respect of best execution, the following considerations will be relevant to determine whether it applies in each case.

2.1 Factors to be considered when assessing legitimate reliance[1]

Whether Nomura is executing an order on behalf of a client will be assessed on a case by case basis. This will depend on whether the client legitimately relies on Nomura to obtain the best possible result. Nomura will consider the following factors in its assessment:

- whether the firm approaches the client, or vice versa;
- whether there is a market practice of “shopping around”;
- the relative levels of transparency within a market will be relevant; and
- The information provided by the firm and the terms of any agreement reached.

2.2 Execution factors

The following execution factors are taken into account by Nomura when executing orders on behalf of Clients in order to achieve the best possible result on a consistent basis:

- Price
- Speed
- Costs
- Likelihood of execution and settlement
- Liquidity of the instrument
- Size, nature and any other consideration relevant to the execution of the order in question

Price is likely to have a high degree of importance relative to the other specified execution factors; its precise importance in the context of any given order will depend upon the method of order receipt and characteristics of the order and may also be affected by any specific instructions.

[1] European Commission’s Working Document ESC-07-2007

2.3 Execution venues

Client orders may be executed via the following different types of venues available to Nomura:

- Markets having regulated market status under MiFID;
- Trading platforms having multilateral trading facility (“MTF”) status under MiFID;
- Order crossing networks and electronic trading platforms not having regulated market or MTF status under MiFID (this may include trading platforms outside the EEA having equivalent status to MTFs);
- Other broker dealers and market makers; and
- Venues available to different group companies forming part of Nomura.

Nomura can, on request, make available a detailed list of all venues used to execute client orders.

2.4 Use of affiliates outside of the EEA

To access particular markets Nomura may act as agent for or receive and transmit client orders to an affiliated company. Where it does so, Nomura will make best efforts to achieve the best possible result for the client on a consistent basis. This result will be in line with the protections offered by equivalent regulations in the relevant jurisdiction.

2.5 Use of third party brokers

Where Nomura passes an order to a third party, it will generally do so in order to execute on a particular venue which Nomura is not able to access directly (for example, where Nomura is not a member of the particular exchange).

In the situations where Nomura has direct connectivity to the particular execution venue via a third party or passes orders to the third party to access another market, it will generally do so on a specific instruction basis so discretion in relation to the execution of the order will remain with Nomura. Otherwise, discretion in relation to the execution of the order is passed to the third party, in which case, Nomura will confirm that the third party has arrangements in place to enable Nomura to comply with its best execution obligations.

2.6 Request for quote (“RFQ”) and market-making

Where Nomura provides liquidity or makes markets by providing a quote, either by publishing quotes electronically or responding to a request for quote or by negotiating a price, client will decide whether or not to transact with Nomura on the basis of that quote. Nomura does not consider that it has received a client order where a client has legitimate reliance on Nomura to act on a client’s behalf to protect a client’s interests.

2.7 Specific instructions

Where a client gives Nomura a specific instruction, including specifying the characteristics of a bespoke product, either relating to an order or a particular aspect of an order, Nomura owes the client the obligation to act in accordance with their instructions and will have discharged the obligation of best execution to the extent that the instruction covers all aspects of execution i.e. security, size and price.

Where all aspects of execution are not covered by the instruction, Nomura will execute so far as is reasonably possible to obtain the best possible result in light of the instruction. Note, however, any specific instruction may prevent or require Nomura to reconsider the degree of importance attached to the Execution Factors and Execution Venues.

For the avoidance of doubt, where a client chooses to execute an order via Direct Market Access ("DMA"), the client will select parameters of the trade (such as the price, the venue, the timing, the size and nature of interaction with your selected execution venue). In such case, Nomura will be treated as having satisfied its duty of best execution and the client will be treated as having given specific instructions for the entirety of their order by means of the DMA system. In cases where the client does not select any or some parameters, Nomura will exercise its discretion and obtain the best possible result having regards to the specified parameter.

3. Transactions where best execution has limited scope

3.1 Equities, equity-like Instruments, exchange traded funds, depository receipts

This section of the Policy covers secondary market trading in relation to: equities, equity-like instruments that trade on equity exchanges, exchange traded funds and depository receipts. Additionally it covers financing, stock borrowing and lending transactions.

3.1.1 Transition management ("TM") trades

Nomura's obligations when executing programme or TM trades for clients shall be as set out in the TM agreement between the parties and subject to the specific instructions of the client on any given trade

Note that specific executions within the overall programme or TM trade may be undertaken to ensure that the final average price of the original order is in line or exceeds the chosen benchmark. These individual executions may occur at prices outside the current market price at the time of execution subject to the discretion of Nomura to achieve the agreed outcome

3.1.2 Stock borrowing and lending and financing

Clients who approach Nomura to enter into stock borrowing and lending and financing transactions may do so on a general or specific instrument basis. Nomura will look to both the equity market, the creditworthiness of the client and the foreign exchange and interest rate markets to determine a funding rate that will be attached to the transaction. This funding rate may be agreed on a general or transaction by transaction basis, and the decision to enter into a transaction at the quoted rate is made by the client and Nomura does not consider that it has received a client order where a client has legitimate reliance on Nomura to act on a client's behalf to protect a client's interests.

Please note Nomura will seek to obtain best execution on the equity hedge in cases where the price of the financial instrument is dependent on the executed price of the delta i.e. it is priced with reference to the price of the equity execution, subject to specific instructions.

3.2 Cash fixed income securities

This section of the Policy covers secondary market trading in relation to: corporate and government bonds; convertible bonds, commercial paper; asset-backed securities; mortgage-backed securities; and structured debt securities. Additionally it also covers repurchase and reverse repurchase transactions with professional clients in relation to these securities.

3.2.1 Repos, reverse repos and financing transactions

Clients who approach Nomura to enter into repo, reverse repos and financing transactions may do so on a general or specific instrument basis. Nomura will look to the fixed income market, the creditworthiness of the client and the foreign exchange and interest rate markets to determine a funding rate that will be attached to the transaction. This funding rate may be agreed on a general or transaction by transaction basis, and the decision to enter into a transaction at the quoted rate is made by the client and Nomura does not consider that it has received a client order where a client has legitimate reliance on Nomura to act on a client's behalf to protect a client's interests.

3.3 Exchange traded derivatives

This section of the Policy covers exchange traded derivatives.

3.3.1 Electronic orders

Electronic orders are handled through a variety of Firm systems that are available to the client and/or trader when executing an order. These orders may be routed directly to an exchange via a DMA platform or be handled by an algorithm.

Where clients access a DMA platform, they will be considered to have provided a specific instruction. Where clients access an algorithm execution platform, the choice of algorithm will determine the approach used to execute the order.

Where an algorithm is designed to replicate or exceed a specific price benchmark, such as volume weighted average price ("VWAP"), the price benchmarking within the trading strategy of the algorithm will be based on the price/volume profile of the underlying exchange traded derivative. Best execution will apply in such circumstances to the following extent:

- Each child order that the algorithm generates will be subject to an overriding aim of best price by determining the best time and way to execute on the relevant exchange to ensure the highest probability of achieving the best possible price;
- Orders may be split by an algorithm with the aim of increasing the likelihood of execution at the best price, except where this is contrary to exchange rules;
- Where the algorithm seeks to replicate a price benchmark, specific executions may be undertaken to ensure that the final average price of the original order is in line or exceeds the chosen benchmark. These individual executions may occur at prices outside the current market price at the time of execution subject to the discretion of Nomura to achieve the desired outcome.

3.4 Over the counter ("OTC") derivatives

This section of the Policy covers OTC derivative instruments; including commoditised derivatives that are traded on a flow basis and bespoke derivative structures as well as the structuring of securitised derivative instruments. Derivatives of this nature are bilateral contracts that are arranged through negotiation, with a quote or price provided to a client. A client will decide whether or not to transact with Nomura on the basis of that quote and Nomura does not consider that it has received a client order where a client has legitimate reliance on Nomura to act on a client's behalf to protect a client's interests.

In entering into these transactions it may be necessary for Nomura to hedge its risk. While the cost of the hedge may be linked to the price of an OTC derivative, hedging is an entirely separate activity. However, where the price of the hedge may be used as a reference price for the derivative, and Nomura will seek to obtain best execution on the hedge subject to any specific instruction.

For complex products, best execution will be considered for the product in its entirety rather than the individual components of the instrument.

3.5 Structured products

This section refers to where Nomura structures and enters into a bespoke OTC derivative transaction with a client in addition to when it structures and sells a securitised derivative instrument. The process of entering into such transactions is usually the result of an instruction from the client and a subsequent process of negotiation and as such is not a client order.

In these instances the client does not generally rely on Nomura to act on their behalf in relation to the pricing of the instrument.

Additionally, as previously detailed OTC derivative transactions are a bi-lateral contractual agreement which takes into account not only the specifics of the instrument but also the various risk elements that are unique to particular counterparties. In these scenarios Nomura will not be acting on the client's behalf.

3.6 Contracts for differences ("CFD") and equity swaps

A client may approach Nomura to enter into synthetic transactions including CFD's and equity swaps. Before these products can be traded, a process of negotiation must be undertaken to agree the structure of the swap; in particular financing rates that will form part of the products pricing. In these instances the client does not generally rely on Nomura to act on their behalf in relation to the pricing of the instrument.

These transactions are bi-lateral contractual agreements which take into account not only the specifics of the instrument but also the various risk elements that are unique to particular counterparties. In these scenarios Nomura will not be acting on the client's behalf. Please note Nomura will seek to provide best execution on the equity hedge in cases where the price of the CFD or swap is dependent on the executed price of the delta i.e. it is priced with reference to the price of the equity execution subject to any specific instruction.

4. Notification of material difficulties

Where Nomura encounters material difficulties in the timely or complete execution of a client order, it is required to inform the client of the difficulty in question once it has become aware of the fact that execution will not occur in line with the reasonable expectations of the client.

5. Review and monitoring

Nomura has an obligation to monitor the effectiveness of its order execution arrangements and this Policy, and where appropriate, correct any deficiencies.

Nomura will review on a regular basis, at least annually, whether the execution venues and liquidity sources referred to in this Policy provide the best possible result on a consistent basis. This review will look to compare pricing and liquidity currently available to Nomura, with those that could potentially be accessed to determine whether clients would be advantaged by Nomura being able to access these additional sources. Following these reviews any necessary changes will be considered. Any material changes to this Policy will be subsequently notified to Nomura's professional clients.

5.1 Execution venues and entities review

A formal review of execution venues/entities that Nomura uses to execute/transmit client orders will occur at least annually or whenever a significant and material change occurs that affects Nomura's ability to obtain the best possible result on a consistent basis for clients. The execution venue review process will incorporate inter-alia the following:

- A formal annual review;
- A review in the event of any material change that may affect Nomura's ability to obtain the best possible result for its clients. A material change could include the emergence of a new MTF, Systematic Internaliser ("SI") or other venue attracting sufficient liquidity, the closure of an execution venue or a change on cost of execution at an execution venue; and
- Appropriate due diligence for any new execution venue or relationship to establish it meets the execution venue selection criteria.

5.2 Venue and entity selection criteria

The criteria to be applied when evaluating existing or proposed execution venues (and entities to whom client orders are passed) will be dependent upon the instrument class and the importance that Nomura has assigned to such criteria. Factors to be considered should include:

- Execution quality – how does the performance of the venue compare with others;
- How historical execution with selected venues met benchmarks;
- Cost of execution;
- Is the venue an effective source of liquidity;
- Are the communication and connectivity paths sufficient;
- Can the venue provide service standards to be able to provide best possible result; and

- Is the venue or entity subject to clear and consistent set of rules.

Any other pertinent factors, in addition to those listed above, will be considered as necessary in order to select the appropriate execution venues.

6. Demonstration of best execution to client

Nomura is required to demonstrate, at the request of a client, that it has executed the client's orders in accordance with the Policy. This obligation applies for client orders where Nomura has assessed that the client legitimately relies on Nomura.

Where requested by a client, Nomura will demonstrate that the execution of the client's order has been undertaken in accordance with this Policy. Documentary records will be retained of all client requests to demonstrate best execution including:

- The client request;
- Evidence available to demonstrate compliance with the Policy; and
- Copies of the firm's response to a client and any other relevant correspondence.

7. Order handling procedures

7.1 Order priority and timely extension

Nomura is required to ensure that client orders are executed in a prompt, fair and expeditious manner for the type of order in question. Nomura satisfies this requirement with policies and procedures to:

- Execute a client order as soon as practical, unless postponing execution is in the client's best interest;
- Allow for the execution of otherwise comparable client orders in the sequence in which Nomura receive them;
- Ensure staff involved in the dealing process use their best endeavours to ensure that they complete the activities they are responsible for in a timely manner.

7.2 Aggregation of orders

When aggregating client orders or own account orders with other client orders the following requirements should be met:

- Aggregation of orders and transactions should not work, in general, to the overall disadvantage of any client whose order is to be aggregated;
- It must be disclosed to each client whose order is to be aggregated that the effect of aggregation may work to its disadvantage in relation to a particular order;
- Where orders are aggregated with other client orders, no client within the aggregated pool will be favored in terms of price and quantity and as such allocations should be effected on a pro- rata basis at the same price; and
- Where clients' orders have been aggregated with a Firm's own account order and the total order cannot be completed the clients' orders should be completed / filled over Nomura's order.
- If Nomura is able to demonstrate on reasonable grounds that without aggregating a client order with an own account order it would not have been able to carry out the order on such advantageous terms, or at all, it may allocate the transaction for its own account proportionally

7.3 Price

Orders are allocated using either the price paid for each transaction or at a volume weighted average of the prices of a series of transactions

7.4 Partial fills

In the event of being able to only partially fill an aggregated order, allocation will occur on a reduced pro-rata basis, unless allocation becomes uneconomic for a client. Where it is no longer in the client's interest to receive the reduced allocation, Nomura may eliminate such clients from the allocation and reallocate the remaining part of the order on a pro-rata basis to the remaining clients. Where an order is partially filled the allocation will give priority to clients relative to our own account transactions

7.5 Reallocations

Reallocation of an aggregated order will occur only in the case of error, or to ensure fairness over a series of partial executions as described above

7.6 Order allocation records

Nomura is required to make a record of the intended basis of allocation when it aggregates the orders of several clients. When it allocates the transaction it should record the actual basis of allocation

If the actual basis of allocation is to be changed once the record of allocation has been made, a record of the reasons for the reallocation must be made. Each business line that aggregates client orders must implement controls to ensure all necessary records are made at the appropriate time

8. Client limit orders

This section applies only to client limit orders in shares admitted to trading on an EEA regulated markets and governs the publication requirements that Nomura is subject to

A client limit order for the purposes of this section is an order to buy or sell a share at its specified price limit or better and for a specified size. This does not include 'stop orders' (an order to buy or sell a share once the price of that share reaches a specified price) or 'contingent orders' (an order whose execution depends upon the execution and/or the price of another security)

8.1 Obligation to make unexecuted client limit orders public

Subject to section 8.2, where a client limit order is received and is not executed immediately, Nomura must:

- Display the client limit order publicly by transmitting the order to a regulated market; or
- Display the client limit order publicly by transmitting the order to an MTF that operates an order book trading system; or
- Ensure that the order is made public (and can be easily executed as soon as market conditions allow)

Where the system used to publicly display limit orders does not have execution functionality, Nomura must provide instructions on how the order can be executed. The purpose of this requirement is to ensure order execution occurs in a timely manner

8.2 Client limit orders that do not require publication

There are 2 circumstances in which Nomura does not have to make a client limit order public:

- An express client instruction not to publish a specific order or generally; or
- The order is "large" in scale

8.2.1 Orders large in scale compared with normal market size

Class in terms of average daily turnover (ADT)	ADT< €500,000	€500,000 ≤ ADT < €1,000,000	€1000000 ≤ ADT < €25,000,000	€25,000,000 ≤ ADT < €50,000,000	ADT ≥ €50,000,000
Minimum size of order qualifying as large in scale compared with normal market size	€50,000	€100,000	€250,000	€400,000	€500,000

Source: FCA Rulebook - MAR 5.7.11; Table 2, Annex II of the MiFID Regulation.

Release Date	Description of Changes	Author and Authorised by
November 2013	Policy Update - title revised from Best Execution Policy to Order Execution Policy - removal of certain elements given change in Equity Business Structure	Equity Compliance
February 2015	Policy Update - clarification of language around best execution obligations	Global Markets Compliance