

# **Alcentra Order Execution Policy**

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**October 2018**



**Alcentra Limited**

## 1. PURPOSE OF THE POLICY

This Alcentra Order Handling and Execution Policy (the “**Policy**”) has been designed to provide clients with information on the arrangements implemented by Alcentra Ltd (“**Alcentra**”, “**us**” or “**we**”) to manage the execution of client orders as required by the revised Markets in Financial Instruments Directive Article 27 (1) 2014/65/EU and implementing measures as transposed into national laws and regulations (“**MiFID II**”), to the extent applicable.

Alcentra is required to take all sufficient steps to obtain the best possible result for clients when executing orders (and receiving and transmitting orders) on their behalf, taking into account factors such as price, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order (“**Execution Factors**”; such obligation is referred to as our obligation of “**best execution**”).

This Policy provides information as to how Alcentra will handle orders and requests for quotes where we owe an obligation of best execution.

Terms used in this Policy but not otherwise defined have their meaning set out in Appendix I.

## 2. SCOPE OF THE POLICY

### 2.1 Geographical and Entity Scope

This Policy will apply to transactions entered into by the following list of Alcentra entities (as may be updated from time to time):

- Alcentra Limited

This Policy will apply where an Alcentra entity listed above either executes a transaction on behalf of a client or transmits a client order to a third party for execution.

This Policy will also apply where an Alcentra entity passes an order for execution to any non-EEA broker-dealer, in which case Alcentra will have a duty of best execution and will require the executing counterparty to provide best execution.

However, this Policy will not apply to transactions between clients and Alcentra entities that are not regulated within the European Economic Area (EEA).

### 2.2 Client Scope

The Policy applies to transactions executed with professional clients, as defined by MiFID II. Clients should have received a formal notification from us informing them of their categorisation. Alcentra’s permission does not allow it to deal with Retail clients.

Where Alcentra executes an order for a professional client, the importance of each one of the Execution Factors (price, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order) and how they are treated may vary depending on the following:

- The nature of the client’s instructions;
- The characteristics of the transaction;
- The characteristics of the financial instrument; and
- The characteristics of the execution venues to which the transaction can be directed.

## 2.3 Activities

This Policy will apply in respect of the financial instruments listed in Appendix II where Alcentra:

- Receives and transmits client orders for execution; and
- Executes orders and requests for quotes on behalf of clients.

Alcentra will act in the best interests of clients in respect of the activities listed above.

## 3. EXECUTION VENUE AND BROKER SELECTION

### 3.1 Selection Process

Alcentra utilises a number of execution venues, including:

- Regulated Markets (RMs);
- Multilateral Trading Facilities (MTFs);
- Organised Trading Facilities (OTFs); and
- Systematic Internalisers.

To the extent Alcentra has discretion over the choice of one execution venue over another, the selection of the execution venue will be made based on which venue (or venues) provide for the best overall result for the client. This also applies where we rely exclusively on one venue to effect certain types of transaction for specific instruments. In all cases we will uphold our regulatory obligation to take all sufficient steps to obtain the best possible results for our clients and consistently achieve the best execution results for them.

Alcentra does not charge commission for execution.

Alcentra relies on an internal Best Execution Governance Forum, which meets annually to validate the list of trading venues that the firm uses. As part of this validation process, the Governance Forum will perform on-going assessments of the execution venues, in order to determine (i) whether existing venues continue to provide for the best possible result for clients and (ii) the suitability of new execution venues. In making this assessment, Alcentra will utilise information derived from its own internal best execution monitoring tools, processes and Management Information (MI), as well as execution quality data reported by execution venues under MiFID II and its implementing measures.

The following factors, which are consistent with the ex-ante and ex-post controls used by the firm to monitor compliance with our Order Execution Policy, will be taken into account during the above assessment:

- Price;
- Liquidity;
- Execution and clearing costs;
- Clearing arrangements such as settlement reliability;
- Execution venue trading controls;
- Qualitative factors such as clearing schemes, circuit breakers, information leakage or any other relevant consideration.

A list specifying which execution venues are used for professional clients is set out in Appendix III.

### 3.2 Execution Methods

Alcentra may opt for different execution strategies depending on the nature of the instrument and the order in question. We may place orders directly with execution venues or execute through counterparties. The counterparties, who themselves may be subject to best execution requirements, may execute the transaction either on their own account or through another venue. Some of the venues operate as Systematic Internalisers for specific instruments, meaning that they deal on their own account for those instruments on a frequent, substantial and systematic basis. Alcentra may also request a quote to trade over the counter with a counterparty on behalf of a client, which is a common method of dealing in fixed income markets. In all cases we will employ that method of execution that will enable us to achieve the best possible execution for the client.

### 3.3 Specific Instructions

Where a client communicates specific instructions to Alcentra related to the execution of an order, we will execute or transmit the order in accordance with those instructions. Where a client communicates specific instructions to Alcentra related to a particular aspect of an order, we will apply our Order Execution Policy to those parts that are not covered by the instructions.

It is important to note that, where a client provides specific instructions with regards to the execution or transmission of an order, this may prevent Alcentra from achieving the best possible result for the execution and transmission of the order, in respect of the elements covered by those instructions.

## 4. ORDER EXECUTION

### 4.1 Execution Factors

When providing portfolio management services to clients, Alcentra must act in accordance with the best interests of its clients. This applies when placing orders with counterparties or using venues for the execution of trades which result from Alcentra's execution decisions. Alcentra is required to take all sufficient steps necessary to obtain the best possible result ('best execution') for its clients, taking into account all relevant factors, including:

- Price;
- Costs (implicit and explicit);
- Size;
- Speed;
- Likelihood of execution;
- Likelihood of settlement;
- The nature of the order; and
- Any other considerations.

The relative importance of each of these factors within our dealing process will vary depending upon a number of criteria, namely:

1. The investment intent of the investment manager who created the order at Alcentra;
2. The characteristics of the client order, including where the order involves a securities financing transaction (SFT);
3. The characteristics of financial instruments that are the subject of that order; and
4. The characteristics of the execution venues to which that order can be directed.

Generally, we will consider Price as the most important execution factor, although at times we may use other factors when dealing in different markets and asset classes. Factors might vary between the choices of counterparties and investment desks. In some markets price volatility and/or liquidity may mean that timeliness of execution is a priority. In other markets, where low liquidity is prevailing, the fact of execution may itself constitute best execution. In other cases, our choice of counterparty may be limited because of the nature of the order or where a Client has limited access to counterparties for trading.

## 4.2 Order Execution per Asset Class

Alcentra's policy allows us to trade a wide variety of Financial Instruments across different strategies. An overview of the strategies can be found in Appendix IV.

The following section provides, for each asset class relevant to Alcentra's investment strategies, an overview of the execution methods and most important execution factors to consider. It is important to reiterate that Price will commonly be given the highest degree of importance from a best execution perspective.

### 4.2.1 Debt Instruments

#### **Scope**

- High Yields Bonds
- Floating Rates Notes

#### **Execution Method**

Alcentra will decide on a case-by-case basis whether to execute a transaction via an execution venue or directly with a counterparty in order to ensure the best possible execution for the client. With regards to debt instruments, Alcentra tends to adopt either of the below methods:

- The trading desk may opt to undertake the transaction directly with a counterparty, soliciting bids/offers either via phone or an electronic trading platform to obtain the best execution price.
- The trading desk may also opt to proceed via a Request For Quote (RFQ) model, which is carried out via an electronic dealing system and enables Alcentra to recreate an auction process to obtain the best execution price.

The trading desk will obtain a minimum of three quotes for liquid debt instruments in order to ensure best execution.

#### **Executing Factors**

Many transactions undertaken by Alcentra involve illiquid debt instruments. As such, where Alcentra identifies only one counterparty to execute a transaction, it shall ensure that the achieved price is fair and in line with best execution requirements outlined under MiFID II. **Price** is the factor that will be given the highest level of importance. Other factors may be taken into account, such as but not limited to, the liquidity of the instrument, the urgency of execution and certainty of execution.

### 4.2.2 Structured Finance Instruments

#### **Scope**

- Collateralised Loan Obligations

## **Execution Method**

Alcentra will decide on a case-by-case basis which execution method will ensure the best possible execution for the client. With regards to structured finance instruments, Alcentra tends to adopt either of the below methods:

- The trading desk may opt to undertake the transaction directly with a counterparty, soliciting bids/offers either via phone or an electronic trading platform.
- The trading desk may solicit either bids or offers during a Bid Wanted in Competition (BWIC) process, which is similar to a secondary auction process.

The trading desk will leverage market scanning tools for pre-trade checks in order to ensure that the quotes negotiated with the counterparty represent a fair price. Where available, in the case of a BWIC process, the trading desk will also analyse competing quotes to assess best execution.

## **Execution Factors**

As for debt instruments, the way structured finance transactions are executed depends very much on the liquidity of the instruments. Most structured finance transactions are arranged over-the-counter, hence **Price** is the factor that will be given the highest level of importance. Other factors may be taken into account, such as but not limited to, certainty of execution, information leakage and liquidity of the instrument

### **4.2.3 Equity Instruments**

#### **Scope**

- Equities
- ETFs

#### **Execution Methods**

Alcentra transmits all of its Equity orders to another bank for execution. The executing bank owes Alcentra a duty of best execution, and charges Alcentra a commission in line with standard market practice for their execution services. Alcentra reviews these fees during its annual Best Execution Governance Forum.

#### **Execution Factors**

With regards to liquid instruments, Alcentra typically expects **Price** to be the most important factor. However, in the case of less liquid equity instruments or large orders, emphasis can also be placed on **Likelihood & Certainty of Execution**. Other factors may be taken into account by the executing bank, such as but not limited to, liquidity available from an execution venue or counterparty, the order size, and the potential impact on the market the order might engender.

### **4.2.4 Foreign Exchange**

#### **Scope**

- FX Forwards
- FX Swaps

#### **Execution Methods**

Alcentra executes most of its FX transactions via the FXALL multilateral trading facility (MTF). Using an MTF allows for efficient price discovery, electronic routing and execution of the trades, thus enabling the trading desk to efficiently aggregate and compare competing quotes in order to execute at the best available rate. Due to the nature of its business, Alcentra conducts a vast majority of its FX transactions as part of its wider hedging strategy.

## **Execution Factors**

Generally there is a high degree of price transparency inherent to the FX instruments we trade so trading desks usually have access to a selection of counterparties. In such cases **Price** is the factor that will be given the highest level of importance. Other factors may be taken into account, such as but not limited to, the liquidity of the instrument, the timing of the execution, the urgency of execution and prevailing volatility. In cases where, due to the nature of the proposed transaction and/or the unique situation of our client, we are limited in the selection of counterparties we will consider other factors like certainty of execution as more important.

### **4.2.5 Derivatives**

#### **Scope**

- Options
- Futures
- Warrants
- Perfect Asset Swaps
- Credit Default Swaps
- Interest Rate Swaps

#### **Execution Methods**

Alcentra will decide on a case-by-case basis, and subject to counterparty risk considerations, which execution method will ensure the best possible execution for the client. With regards to derivative instruments, Alcentra tends to opt for the below method:

- The trading desk may opt to undertake the transaction directly with a counterparty, soliciting bids/offers either via phone or an electronic trading platform.

With regards to over the counter (OTC) derivatives, Alcentra will make sure that all the required and appropriate documentation is in place. Alcentra will also take the necessary actions to ensure OTC transactions are executed at a fair price. This will notably be done by analysing historical quotes, as well as quotes obtained from other counterparties and third party providers, on the basis of availability.

## **Execution Factors**

**Price** is the factor that will be given the highest level of importance. Other factors may be taken into account, such as but not limited to, counterparty risk, the liquidity of the instrument, the urgency of execution and prevailing volatility.

### **4.2.6 Securities Financing Transactions**

#### **Scope**

- Bond Repos

#### **Execution Methods**

Alcentra will decide on a case-by-case basis, and subject to counterparty risk considerations, which execution method will ensure the best possible execution for the client. Alcentra executes Repos with a limited number of available counterparties. Alcentra typically follows an RFQ-like process by contacting a defined list of counterparties who then make us a price.

#### **Execution Factors**

Alcentra will base its choice of counterparty on a combination of factors, including but not limited to the price of the bond, financing costs (e.g. spread and potential haircut), counterparty risk as well as diversification.

## 5. ORDER EXECUTION OUTSIDE OF TRADING VENUES

Alcentra may decide that in certain circumstances, where a client has previously provided its consent, it would be beneficial to execute all or part of an order outside a Trading Venue. This is mostly relevant in cases of low liquidity instruments where we may be constrained in the choice and availability of venues and counterparties. In such cases, where certainty of execution is deemed important, we will, subject to client consent, execute transactions outside a trading venue.

When executing orders or taking the decision to deal in OTC products, including bespoke products, Alcentra shall check the fairness of the price proposed to the client, by gathering external market data (where available) used in the estimation of the price of such products and, where possible, by comparing with similar or comparable products. Such pre-trade checks (ex-ante assessment) are undertaken on a systematic basis and embedded in our policies and practices. Any checks or controls will be calibrated according to the nature of the financial instrument and the characteristics and circumstances of the individual trade.

## 6. RESTRICTIONS

Where Alcentra is subject to internal trading restrictions, it may not be possible to accept a client order, in which case the client will be notified at the time of order receipt.

## 7. MONITORING

The effectiveness of our order execution arrangements is monitored on an ongoing basis. In order to monitor exceptions to agreed benchmarks across its financial instruments, Alcentra utilises the following solutions to assist in the monitoring of Best Execution.

### 7.1 EX-ANTE Monitoring

#### 7.1.1 BTCA

Bloomberg Transaction Cost Analysis (BTCA) is the TCA tool Alcentra uses concurrently with EMSX and TSOX. This TCA tool enables us to monitor, on a daily basis, deviations from industry recognised best execution benchmarks by setting clear tolerance levels across Fixed Income & Equities orders of different difficulty levels.

#### 7.1.2 MarketAxess/TRAX

Alcentra relies on MarketAxess to execute a small portion of its bond transactions. MarketAxess provides TCA reports on a monthly basis, which are reviewed by Alcentra to ensure that any potential tolerance breaches are quickly identified and remediated.

### **7.1.3 BestX**

We use BestX to support our post-trade analyses and exceptions management workflow for all FX transactions. Similarly to BTCA, BestX enables us to set specific tolerance levels on the relevant best execution benchmarks, thus enabling daily monitoring of our execution performance

## **7.2 EX-POST Monitoring**

We monitor our adherence to the policy and its regulatory obligations in this area through the firm's compliance risk assessment framework and monitoring programme. See Section 9 to learn more about our annual best execution governance process.

## **8. REPORTING**

### **8.1 Client Reporting**

Upon receipt of a reasonable and proportionate request Alcentra will, clearly and within 5 working days of the receipt of the request, provide clients with reports and information regarding this Policy.

### **8.2 Public Reporting Requirements**

Alcentra is subject to the RTS 28 Reporting obligation under MiFID II which requires Alcentra to publish quantitative details of its top five brokers and execution venues ("RTS 28 Disclosures"). The FCA rules in COBS 11 support these objectives.

In respect of our top execution venues Article 27(6) of MiFID II requires us to summarise and make public on an annual basis, for each class of financial instruments, the top five execution venues in terms of trading volumes, where we executed client orders in the preceding year, together with information on the quality of execution obtained. The FCA implemented this rule in COBS 11.2A.38R.

In respect of passing orders to another firm for execution, under the MiFID II Level 2 Delegated Regulation 2017/565 (Article 65(6) of the Delegated Regulation), we are subject to an equivalent rule to the above. Where we select another firm to provide order execution services we must summarise and make public, on an annual basis, for each class of financial instruments, the top five investment firms (brokers) in terms of trading volumes where we transmitted or placed client orders for execution in the preceding year and information on the quality of execution obtained.

These reports may be accessed on Alcentra's website under "Regulatory information".

## **9. GOVERNANCE**

Alcentra has established internal governance processes to assess its execution arrangements, order handling, and execution monitoring and reporting infrastructure.

This includes public reporting obligations for best execution under RTS 28 and (Article 65(6) of the Delegated Regulation), and the review of such reports made by other execution venues.

The Best Execution Governance Forum meets annually to assess the effectiveness of these arrangements and to determine any changes or enhancements that may be required. Where this results in a material change to Alcentra execution arrangements, which could impact the Execution Factors and their relative importance, this will be communicated to clients via an update of the Policy. This Policy will also be subject to an annual review including an assessment of the execution venues used by Alcentra. In addition, should any material change to Alcentra's execution arrangements – which affects Alcentra's ability to continue to obtain the best possible result for its clients – be identified outside of any formal periodic review processes, this will be subject to a separate review process and notified to clients accordingly.

## 10. ORDER HANDLING

The section below provides further information on how orders will be handled, with the overriding objective being to ensure that orders are executed promptly, fairly and in due turn.

### 10.1 General Considerations

Where we receive a client order we will ensure that the order is executed promptly and will be accurately recorded and allocated.

In the event that we receive comparable orders for two or more clients, the orders will be executed promptly and sequentially unless the characteristics of the order or prevailing market conditions make this impracticable, or the interests of the client require otherwise. Orders will not be considered as comparable if they are received via different execution channels or via two different trading desks within Alcentra or otherwise where it would not be practicable for them to be treated sequentially.

Information in respect of executed or pending client orders will be treated as confidential and we will take all reasonable steps to ensure that information of any pending orders will not be misused.

### 10.2 Aggregation and Allocation

It is unlikely that the aggregation of orders and transactions will work overall to the disadvantage of any client whose order is to be aggregated. Where it is believed the effect of aggregation may work to the disadvantage of the client in relation to a particular order, this will be clearly disclosed.

Upon execution any aggregated order will be fairly allocated, taking into account the size of the order and the price of the fills received. Should we choose aggregate one or more client orders, requiring allocation or re-allocation, this will only occur where Alcentra deems it to be fair, reasonable and not to the detriment of its clients.

## 11. ADDITIONAL INFORMATION

In case you require additional information with regards to the content of this Order Execution Policy, please email [investorrelations@alcentra.com](mailto:investorrelations@alcentra.com).

**APPENDIX I**

<b>Term</b>	<b>Definition</b>
LTD	Alcentra Limited
BNY	BNY Mellon
MiFID II	Markets in Financial Instruments Directive II
FRN	Floating Rate Note
CDS	Credit Default Swap
FX	Foreign Exchange
CDO	Collateralised Debt Obligation
CLO	Collateralised Loan Obligation
HY	High Yield
ETF	Exchange Traded Fund
TSOX	Bloomberg Execution Management Platform for Fixed Income
EMSX	Bloomberg Execution Management Platform for Equity
TCA	Transaction Cost Analysis
MI	Management Information
Haircut	Financial jargon referring to the difference between the market value of an asset used as loan collateral and the value ascribed to that asset when used as collateral for that loan

**APPENDIX II**

<b>Alcentra Instrument List (In-scope of MiFID II)</b>
High Yield Bonds
Floating Rate Notes
Exchange Traded Funds
Foreign Exchange
Credit Default Swaps
Equities
Warrants
Options
Futures
Interest Rate Swaps
Collateralised Loan Obligations
Bond Repos
Perfect Asset Swaps

## APPENDIX III

### List of Execution Venues\*

- Bloomberg MTF
- MarketAxess MTF
- FXALL MTF
- Various Systematic Internalisers (Full list pending publication by ESMA)
- Some regulated markets for Equities and Equity Derivatives are accessed via either UBS or Morgan Stanley

\*Subject to Change and Regular Review

## APPENDIX IV

### Secured Loans Strategy

Secured Leveraged Loans are sub-investment grade corporate debt instruments that are secured against the assets of the borrower. Because of this, Secured Loans are expected to offer a higher recovery rate in the event of default than unsecured obligations like High Yield Bonds. Loan investors often receive the benefit of extensive legal covenants that provide control over borrowers in the event of weaker performance.

Secured Loans offer a floating rate of income, with a fixed margin above interbank offered rates, offering an investor protection in a rising interest rate environment and less duration risk than fixed rate assets. Due to their position in the capital structure Secured Loans display lower secondary market price volatility than High Yield Bonds.

### High Yield Bonds Strategy

High yield bonds are debt securities issued by sub-investment grade rated borrowers and usually pay a fixed rate of interest. Typically they will be unsecured and in the event of a default or liquidation, investors in a high yield bond will rank behind all secured lenders. They will be repaid out of whatever liquidation proceeds remain after all the secured lenders have been repaid in full. As a result, high yield bonds will typically achieve lower levels of recovery than secured debt following default or liquidation.

However, in the last few years, issuance of senior secured high yield bonds has gained popularity. A senior secured high yield bond shares in the same security pool as a senior secured loan and for that reason is expected to achieve similar levels of recovery. Some of these bonds have been structured to pay a floating rate of interest – such bonds are referred to as “senior secured floating rate notes”.

### Direct Lending Strategy

Calls by regulators for banks to hold more capital has led to a squeeze in lending to corporates and has particularly affected the middle market sector. Further macro-economic instability may further decrease appetite from traditional lenders to provide funding, creating an investment opportunity for non-bank lenders like Alcentra to fill the gap as banks are disintermediated.

The middle market is a large contributor to GDP and employment, where private-sector funded lending will complement the traditional bank financing market.

Alcentra can arrange a flexible financing package for middle market borrowers, provide the capital and develop a close relationship with the management of the borrower.

Compared with secured debt, lending directly to the middle market provides investors with access to attractive returns across the capital structure and more control over terms of the financing package.

### European Mezzanine Strategy

Mezzanine loans are a hybrid floating-rate product filling the funding gap between senior secured debt and equity. They are typically secured on the assets of the borrower albeit in a junior position to senior Secured Loans.

Mezzanine loans offer higher returns than senior Secured Loans to compensate for their more junior position in the capital structure. By carefully selecting investments for a diversified portfolio of Mezzanine loans, investors can benefit from these higher returns while mitigating the risk of loss.

Investors receive income through a combination of cash-pay coupon, PIK (“Payment-In-Kind”) and equity warrants.

### Special Situations Strategy

Our Special Situations strategy seeks to invest in undervalued, sub-investment grade credit opportunities, primarily in Europe where we believe a long, drawn out deleveraging cycle has only just begun. Whilst we like to focus across the capital structure, we have a special focus on opportunities in the loan space. Today, loans are likely to form the significant majority of the overall investment opportunity and Alcentra is a significant player in this asset class where we have a clear, competitive advantage. Everything we do is focussed on value.

### Structured Credit Strategy

Alcentra limits its activities in the structured credit markets to those instruments that are based on portfolios of sub-investment grade corporate debt.

Collateralised Loan Obligations (“CLOs”) are tranches of debt securities backed by senior Secured Loans to U.S. and European corporates.

Following the last economic crisis, prices of CLO securities fell substantially, and have recovered more slowly than other fixed income asset classes including the loan portfolios on which they are based. As a result, Structured Credit can provide a cheap way to access the underlying loan portfolios.

Alcentra targets the mezzanine and equity tranches where we have identified the highest opportunity for capital appreciation and income.

### Multi Strategy

Alcentra’s multi-strategy solutions offer investors access to our U.S. and European investment strategies on an integrated basis with the additional benefits of ongoing strategy allocation, increased diversification, integrated risk management, and consolidated reporting. These tactical, outcome-focused solutions can deliver, in one vehicle, holistic exposure to liquid and semi-liquid investments such as senior loans, high yield bonds, special situations, and structured credit, and in certain circumstances, illiquid investments, including middle-market direct lending. Bespoke multi-strategy solutions can be provided for through managed accounts.