



# LHCM Ltd (“LHCM”) Client Order Execution Policy Statement

8th March 2024

## I. Introduction

Following the implementation of the Markets in Financial Instruments Directive 2014/65/EU (“MiFID II”) and in accordance with the Financial Conduct Authority (“FCA”) Handbook rules (the “Regulations”), LHCM LTD (the “Company”) is required to take all sufficient steps to obtain the best possible result for its clients where the firm owes contractual or agency obligations to the client.

This document is designed to inform our Clients of the principles and methods governing the execution of Client orders on the best possible terms, and to serve as a basis for our Clients consent to our Order Execution Principles when buying or selling a financial instrument.

This policy applies to LHCM's execution of orders for professional Clients.

All Client orders are promptly and accurately recorded and allocated on platforms that are in use of LHCM and details of executed trades are maintained on the platforms indefinitely.

This policy is effective from March 2024 and shall remain effective until a more recent version is released.

## 2. Financial Instruments to which this Policy Applies

This policy applies to financial instruments and products as defined by the regulations, including Stocks, Bonds, Exchange Traded Funds (“ETFs”), Futures, Options (OTC and exchange traded), Foreign Exchange Forwards (including rolling FX Spot), Foreign Exchange Options, Contracts For Difference (“CFDs”), Certificates, Warrants, and Mutual Funds. Some of these products are due to their nature traded OTC.

The trading conditions and fees for the above products are available online in the client protected area.



### 3. LHCM's Approach to Best Execution

3.1. When executing orders on behalf of a Client in relation to financial instruments, LHCM will take all reasonable steps to obtain the best possible execution result. In the absence of specific Client instructions, LHCM will take into account a combination of the following execution factors for the purpose of obtaining the best possible results for its clients:

- a) Price;
- b) Cost of the total execution;
- c) Speed;
- d) Likelihood of execution and settlement;
- e) Size, nature and type of the order;
- f) Any other consideration relevant to the execution of an order.

3.2. When considering the best execution factors, LHCM takes into account the following criteria:

- a) Characteristics of the client including the categorization of the client;
- b) Characteristics of the Client order;
- c) Characteristics of the financial instruments that are subject to the order (in particular in relation to OTC financial instruments); and
- d) Characteristics of the execution venues to which the order can be directed.

3.3. Whenever there is a specific instruction from or on behalf of a Client, LHCM will – to the extent that it is possible – execute the order in accordance with the specific instruction. A specific instruction from a Client may prevent LHCM from taking the steps that it has described in this policy to obtain the best possible result for the execution of orders. Trading rules for specific markets may prevent LHCM from following certain of the Client's instructions. To the extent that a Client instruction is not complete, LHCM will determine any non-specified components of the execution in accordance with this policy.

3.4. Due to systems failures or other unavoidable reasons, LHCM may execute orders in a method that differs from the method selected pursuant to the Best Execution Policy. Even in such a case, however, LHCM endeavors to execute orders on the best terms available at that time.



## 4. Best Execution Criteria

4.1. The procedure for routing determinations is mainly based on four criteria and is regularly reviewed by LHCM. Hence to determine the best way to execute an order for a Client LHCM takes into consideration:

4.1.1 **Price Improvement and Overall Consideration of Costs:** Orders are routed to market makers and/or markets where opportunities for price improvement exist. The criteria to be used by other market-makers and/or markets include:

- a) Automatically matching incoming market and limit orders to pending limit orders;
- b) Cross transactions where price improvement can be offered to one or both sides of the trade.

4.1.2 **Speed and Likelihood of the Execution:** Due to the levels of volatility affecting both price and volume, EXT seeks to provide Client orders with the fastest execution reasonably possible although delays may occur.

4.1.3 **Size Improvement:** In routing orders, EXT seeks markets that provide the greatest liquidity and thus potential for execution of large orders. EXT also seeks opportunities for Client orders to benefit from order-size commitments offered by third parties.

4.1.4 **Overall Execution Quality:** When determining how and where to route an order, EXT is focusing on prompt and reliable execution which is being continuously evaluated (section 9 of this Policy).

## 5. Execution of Client Orders

5.1. LHCM uses automated systems to route Client orders for execution. When a Client order is received by LHCM, it is routed to the execution venue that LHCM considers to generally provide the Best Execution. LHCM may execute orders outside regulated markets and multilateral trading facilities.

In this respect, by accepting this policy and any agreement attached herewith, the Client signals its consent for LHCM to execute orders outside regulated markets and multilateral trading facilities.

5.2. For instruments admitted to trading and official listing on a regulated market or stock exchange (i.e. Bonds, Stocks, Futures, and ETFs), LHCM routes orders to the multilateral trading facility or third parties that can execute trades on stock exchanges according to the quoted prices of those exchanges.



5.3. For OTC products (CFDs, (rolling) FX Spot, FX Forwards, and FX Options), LHCM will route orders to the appropriate market maker for execution at prices provided by them on the trading platform. For OTC-traded CFDs on single stocks execution is benchmarked to the pricing and liquidity on the primary regulated market or exchange of the relevant stock.

5.4. Prices of non-listed units in Mutual Funds (e.g. unit trusts or open-ended investment companies) are set at a future “valuation point” and the exact price of such units is therefore not known in advance. Execution prices for such orders will be provided by the liquidity provider XNT LTD. according to the fund manager's rounding rules.

5.5. There may be delays in the execution of orders, including orders placed through online trading systems. Some orders placed through online trading systems may be handled manually. When high traffic in electronic orders causes a backlog, LHCM, as well as counterparties to which orders are sent for execution, must sometimes discontinue normal automatic execution procedures and turn to manual execution, leading to possible delays in execution. In order to minimize such a risk, LHCM has in place procedures and arrangements which to the furthest extent possible provide for the prompt, fair, and expeditious execution of Client orders.

5.6. Execution of orders is monitored 24/7 and the execution venue can be changed (switched off) manually in the following cases:

- a) Risk Management finds evidences for potential risks to the safety of client's funds – credit risk events;
- b) In case of technical problems, when the trading platform technical support displays evidence that the counterparty is unresponsive, it can be switched off until the technical problems are solved;
- c) Any other events which potentially possess threats to the company's or the client's funds integrity;
- d) Periodic evaluation of the execution venue/counterparty shows an upgrade of the service level, reduction of costs, and better conditions, which basically means that the counterparty becomes higher rated and moves up in the ranking.

5.7. Standard execution venue failure – applicable only for FX, CFD, transferable securities, and other exchange traded instruments. OTC instruments like Eurobonds or OTC Futures and Options are handled on a case-by-case basis determining the best price by the price range of extensive trading.

To provide continuity and fault-tolerance, LHCM uses smart order routing in case of execution venue failure which may be caused by the following reasons:

- a) Technical disconnection of the venue;
- b) Lack of free funds on account with counterparty providing execution venue;



c) Unsuitable characteristics of the client order.

In the above cases, smart order routing will place the order with the next execution venue in the ranking. If the order cannot be placed, it will be rejected completely. If the order size is too large for the market or the market depth is too thin then the same strategy applies. In case of (b) occurring, smart order routing is the temporary measure only until funds arrive in the account with the counterparty providing access to this specific execution venue. LHCM keeps records on such rejects and evaluates fault-tolerance of the counterparty for further possible changes of rating according to the scoring system.

## 6. Execution Venues

6.1. LHCM uses several external financial institutions and brokers to execute orders for different financial instruments.

6.2. Before including the counterparty in the list of execution venues, four steps must be completed:

**A – Initial pre-screening of conditions** – at this stage LHCM evaluates if the counterparty could offer a better service, additional markets, better financing rates or faster execution. This phase is mostly undocumented;

**B – Due Diligence check** – is performed by the employee familiar with due diligence and KYC procedures, with the written result being approved by the Compliance Officer and a Director;

**C – Risk Assessment** – financial and other risks are evaluated by the outsourced Risk Department/ Manager; recommendations and conclusions provided to the responsible Director.

**D – Technical compatibility** – trading platform provider technical specialists will check the general integration possibilities of counterparty systems with the trading platform. After that the counterparty shall be included in the execution venues list at the bottom of the ranking and continuous evaluation begins according to the scoring system.

6.3. List of execution venues/execution venues providers (counterparties) for the financial instruments is listed in Annex 3 of this Policy.

6.4. The standard and alternate execution venues (execution line) for different trading instruments are specified in Annex 4 of this Policy.



## 7. Effects on Order Execution

7.1. Clients should be aware of the following risks associated with volatile markets, especially at or near the open or close of the standard trading session:

- a) Execution at a substantially different price from the quoted bid or offer or the last reported sale price at the time of order entry, as well as partial executions or execution of large orders in several transactions at different prices;
- b) Delays in executing orders for financial instruments that LHCM must send to external market makers and manually routed or manually executed orders;
- c) Opening prices that may differ substantially from the previous day's close;
- d) Locked (the bid equals the offer) and crossed (the bid is higher than the offer) markets, which prevent the execution of Client trades;
- e) Price volatility is one factor that can affect order execution. When Clients place a high volume of orders with brokers, order imbalances and backlogs can occur. This implies that more time is needed to execute the pending orders. Such delays are usually caused by the occurrence of different factors:
  - (i) the number and size of orders to be processed;
  - (ii) the speed at which current quotations (or last-sale information) are provided to LHCM and other brokerage firms; and
  - (iii) the system capacity constraints applicable to the given exchange, as well as to LHCM and other firms.

## 8. Types of Orders

8.1. Given the risks that arise when trading in volatile markets, the Client may want to consider using different types of orders to limit risk and manage investment strategies. (It should be noted that the following descriptions of order types may apply only to some and not all types of financial instruments).

8.2. **Market order:** With a market order the Client instructs a financial institution or trading counterparty to execute a trade of a certain size as promptly as possible at the prevailing market price. Financial institutions are required to execute market orders without regard to price changes. Therefore, if the market price moves significantly during the time it takes to fill a Client's order, the order will most likely be exposed to the risk of execution at a price substantially different from the price when the order was entered.



- 8.3. **Limit order:** With a limit order, the Client sets the maximum purchase price, or minimum sale price, at which the trade is to be executed. As a limit order may be entered away from the current market price, it may not be executed immediately. A Client that leaves a limit order must be aware that they are giving up the certainty of immediate execution in exchange for the expectation of getting an improved price in the future. Limit orders may be routed to an exchange without human intervention.
- 8.4. **Stop order:** Different from a limit order, a stop order allows selling below the current market price or buying above the current market price if the stop price is reached or breached. A stop order is therefore a “sleeping” order until the stop price is reached or breached.
- 8.5. **Stop Limit Order:** A stop limit order is a variation of a stop order as described in 8.4. with a lower (higher) limit price to suspend trading if the price falls (rises) too far before the order is filled restricting trading to a predefined price range.

## 9. Regular Review of Execution Quality and Execution Venue

- 9.1. LHCM will review this policy annually and whenever a material change occurs that affects LHCM's ability to obtain the best possible result for the execution of Client orders.
- 9.2. LHCM regularly reviews the overall quality of its orders. Continuous evaluation of execution and trading venues is made via a scoring system. All scores are relative on a scale from 1 (worst) to 10 (best). The highest Total Score determines the rank of the execution venue.

$$\text{Total Score} = 0.5 \times \text{SpreadAndPriceScore} + 0.5 \times \text{ReliabilityScore} + 0.5 \times \text{CostScore} + 0.3 \times \text{ServiceScore}$$
where:

**A. Spread and Price Score** – relative score of average bid/ask spread in the instrument, sampled on random times. This score includes types of orders that the venue can execute, number of orders filled, possible last look, handling of mass orders, etc;

**B. Reliability Score** – score of total technical integration, speed of execution and technical stability;

**C. Cost Score** – relative score of total cost associated with executing an order on the venue;

**D. Service Score** – relative score of the ability of the counterpart to integrate into back office reconciliation, provide additional services, have fast and effective technical and finance support.

Evaluation is done sporadically at random times at least quarterly. LHCM will amend this policy on the basis of such reviews if it considers it to be necessary. Any new policy will be made available on LHCM's website and will be in force as from publication.



## 10. LHCM's Terms of Business

10.1. This policy is subject to LHCM's Terms of Business and other Rules, from time to time governing the relationship between the Client and LHCM. Further information on order execution can be found in LHCM's Terms of Business.





## Annex I

# Best Execution in Daily Operations and Control Tools

LHCM performs best execution control tests on a yearly basis by analyzing random transactions. The overall system monitoring and control is on a constant 24/7 basis.

In defining Best Execution, the following factors are taken into consideration:

- a) Types of securities traded
- b) Broker/dealers (counterparties) used
- c) Trading venues utilized
- d) Costs and clients' benefits
- e) Possible conflict of interest

Best Execution is divided into 3 stages:

**Pre-execution** – when the Company chooses the proper partner;

**Execution** – when the functionality of the trading platform and internal controls in place are assessed; and

**Post-execution** – when information about how the Company detects and resolves trade errors is reviewed and analyzed.

The Company uses a technical solution – The Symbol DB system (“DBS”) is designed to provide automatic assessment of orders and allocation to the most appropriate counterparty. The settings are managed by the outsourced Technical Support of the trading platform provider and the Risk Department. Material changes, such as counterparty inclusion/exclusion, are approved by a Director; regular daily changes, such as switching off a counterparty or any other auto-routing related issues are solved by the outsourced Technical Support of the trading platform provider according to this policy and other Company instructions.

During pre-execution, LHCM analyses the current list of available counterparties for different financial instruments, their rates, concentration and ranks them in the system.



In the following cases:

- the system starts declining orders (excluding instances where customers do not have enough balance on their accounts for the orders provided);
- balances on the counterparty's accounts have reached low/zero balances;
- notifications received from counterparties about changes/limits implemented;
- any other/ new circumstances raised;

The Company immediately re-evaluates the counterparties and makes changes within DBS.

LHCM policy is to execute trades individually and in the order they are received, namely on a "first come, first served" basis, even in the case of partial execution. In principle, therefore, LHCM does not aggregate clients' orders.

Due to systems failures or other unavoidable reasons, LHCM may execute orders in a method that differs from that stated in this policy. Even in such a case, LHCM endeavors to execute orders on the best terms available at that time.

During the execution stage, all orders are processed automatically by the system, with the outsourced Technical Support monitoring all notifications provided by the system and following the order execution statistics.

The automatic system notifications are divided into 3 main groups:

1. **Infrastructure problems within LHCM:** might arise in case of technical problems with the network (locally or globally), hardware/software problems and/or hosting company;
2. **Counterparty problems:** usually occur if a Counterparty changes its settings, like limits, financial instruments identifications, etc. without informing LHCM; in case of connection loss at the counterparty side or between the counterparty and stock exchange.
3. **Client problems:** usually happen when clients provide incorrect orders, like out of trading time, out of stock exchange defined min/max limits, incorrect lot sizes; clients have insufficient funds on the account for the initiated operation or doesn't have sufficient rights/proper access.

At the post-execution stage all system notifications are analyzed within the overall performance and amendments that need to be made to settings are performed.



## Annex 2

# Best Execution Testing Methodology

## Objective

The objective of the Best Execution Testing is to ensure that the Company adheres to the order execution process as per the best practices of the FCA Rules/Law, The testing aims to verify that orders are executed to achieve the best possible result for clients, considering all relevant execution factors.

## Overview

The Company's main business model includes the reception and transmission of client orders as a DMA sub-provider. The Company does not intervene in the order execution process. All Client orders are automatically passed to upstream executing brokers for further execution. As a result, the Company cannot influence the execution of a particular order. Instruments provided by the Company are mainly traded on regulated trading venues and order execution takes place under such trading venue rules.

## Testing Approach

The testing is performed to evaluate the effectiveness of the order execution process:

- Whether the execution price is within the tick range
- Verify Execution time for Market Orders
- Verify Execution time for OCO, FOK Orders
- Verify Price filled against LIMIT price
- Verify Total quantity filled against order Quantity



### Annex 3

## Execution Venues

Name	Country of Incorporation	Regulatory authority	Financial instruments
Number One Brokers	Mauritius	The Financial Services Commission, Mauritius (FSC)	Contracts for Difference (CFD)
XNT Ltd	Malta	Malta Financial Services Authority (MFSA)	Worldwide Transferable Securities; Fixed Income Securities; Contract for Difference (CFD); Derivative Contracts; Foreign Exchange (FX); Units in Funds
XHK Limited	Hokg Kong	The Securities and Futures Commission (SFC)	Transferable Securities; Fixed Income; Derivative Contracts
EXT Ltd	Cyprus	Cyprus Securities and Exchange Commission (CySEC)	Worldwide Transferable Securities; Fixed Income Securities; Contract for Difference (CFD); Derivative Contracts; Foreign Exchange (FX); Units in Funds



## Annex 4

# Standard and Alternate Execution Venues

Instrument	Standard Execution Venue*	Alternate execution venue**	
	1st	2nd	3rd
Foreign Exchange (FX);	EXT Ltd	XNT Ltd	n/a
Contracts for Difference (CFD)	Number One Brokers	EXT Ltd	XNT Ltd
Transferable Securities	EXT Ltd	XNT Ltd	XHK Limited
Fixed Income Securities	EXT Ltd	XNT Ltd	XHK Limited
Funds	EXT Ltd	XNT LTD	n/a
Derivative Contracts	EXT Ltd	XHK Limited	XNT Ltd



Execution is regularly evaluated according to certain criteria: reliability, fault-tolerance, spread, commissions, leverage, etc. These may result in a change of sequence of execution venues.

Standard execution venue\* - for all orders, the main criteria is fault tolerant execution

Alternative execution venue\*\* -automated switch in case of Standard execution venue failure

### **Foreign Exchange (FX):**

- EXT Ltd – Proven and reliable counterparty which has the lowest spreads and absence of slippage

### **Contracts for Difference (CFD):**

- Number One Brokers – crypto CFDs provider
- EXT Ltd – Stock CFDs; Index and commodity CFDs backup

### **Derivative Contracts:**

- EXT Ltd – Major counterparty for all exchange-traded derivatives business
- XHK Limited – A backup provider in case the standard execution venue fails
- XNT Ltd – A backup provider in case the standard execution venue fails