

Kingsway Financial Services Group Limited
(“**Kingsway**”)

Best Execution Policy

Background

The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (“**Code of Conduct**”) requires that a licensed or registered person executes client orders on the best available terms to deliver best execution.

As detailed in the Report on the Thematic Review of Best Execution (SFC, 30 January 2018), we are required to deliver best execution to protect the investors who rely on us to act in their best interests during the execution process.

All execution staff who are responsible for the execution of transactions on behalf of clients must ensure that any such activities are conducted in accordance with the requirements and guidance set out in this policy.

A. Application of best execution and carve outs

This policy applies to the provision of execution services where Kingsway executes orders for clients that are within the scope of best execution imposed by the applicable regulatory requirements. The best execution obligation will exist when:

- (1) enters into an agency or back-to-back principal transaction with clients where clients rely on Kingsway to protect their interested in order execution; or
- (2) arranges transactions, including passing the order or acting as manager and placing the order to a broker or affiliate for execution; or
- (3) provides a quote in response to a request for quote “RFQ” where the client is legitimately relying on us to obtain the best available terms. In this regard, the following four factors will be weighed to determine whether the client is legitimately relying on us to obtain the best possible result:
 - (i.) whether the client initiates the transaction or RFQ or vice versa - where for example we approaches the client and suggests that the client enters into a transaction, it is more likely that the client will be placing reliance on us and where the client initiates the transaction it is less likely that the client will be placing reliance on us;
 - (ii.) the market practice for the product and the existence of a convention for the client to “shop around” - where the practice in the market in which a business area operates suggests the client take responsibility for the pricing and other elements of a transaction (e.g. there is a market convention to “shop around” for a quote) it is likely that the client will be placing reliance on us;
 - (iii.) the levels of price transparency within the relevant market - where we have ready access to prices in the market in which it operates but the client does not, it is more likely that the client will be placing reliance on us and where if Kingsway’s access to

- pricing transparency is equal or similar or to the client, it is less likely that the client will be placing reliance on us; and
- (iv.) the information provided by us to the client about its services and any other existing agreement between Kingsway and the client that may be relevant.

In other situations, our duty of best execution will depend on whether the client is deemed to be placing legitimate reliance upon Kingsway to protect its interests in relation to the execution of the order. Kingsway acts on behalf of those clients who legitimately rely on us to protect their interests in relation to the parameters of the transaction that may be affected by the choices made by us when we provide execution services to them. In order to assess if we are executing an order on behalf of the client, we will determine whether the client is placing “legitimate reliance” on us, a process that will take into account a number of relevant considerations. In general, the considerations we will assess include:

- (1) whether we or the client initiates transactions – where we approach the client and suggest that the client should enter into a transaction, it is more likely that the client will be placing reliance on us. The reverse is true where the client initiates transactions;
- (2) market practice – where the practice in the market in which a business area operates suggests the client takes responsibility for the pricing and other elements of the transaction (e.g. there is a market convention to “shop around” for a quote), it is less likely that the client will be placing reliance on us;
- (3) relative levels of transparency within a market – if we have ready access to prices in the market in which we operate, whereas the client does not, it is more likely that the client will be placing reliance on us, whereas if our access to pricing transparency is equal, similar or to the client’s benefit, it is less likely that the client will be placing reliance on us; and
- (4) information provided by us and the terms of our agreements with the client – where our arrangements and agreements with the client (including this policy) do not indicate or suggest a relationship of reliance or state that we will not provide best execution, it is less likely that the client will be placing reliance on us.

This policy will not apply where there is no expectation on Kingsway to provide a best execution service and we will consider that we has met our obligations to deliver the best possible outcome for the client in the following typical situations:

- (1) follows specific instructions from a client when executing client orders whereby Kingsway will execute in accordance with those instructions. Where a client’s specific instructions only relate to part of an order, this policy will apply to those aspects of the order not covered by the specific instructions; or
- (2) only provides prices to its clients at which it would be willing to buy or sell (without dealing); or
- (3) quote driven order from the client who is a professional investor as defined in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance of Hong Kong where the client does not place legitimate reliance on us to provide best execution, as it is the client who ultimately decides whether to proceed with a transaction; or
- (4) order in collective investment schemes where we will trade exclusively with fund managers or its appointed administrators, which may be affiliates or third parties on our approved counterparty list; or

- (5) order in OTC structured investment product such as participation notes or funding related note form products which are largely customized to meet the client specific requirements and its pricing is generally derived as a result of bilateral negotiations between us where we will give priority to our affiliate; or
- (6) a client chooses to execute an order using Kingsway's electronic trading systems it is usual for the clients to select adequate parameters for the trade to be executed.

B. Factors to be considered in delivering best execution

Subject to any specific instructions that may be given by a client, Kingsway will exercise its own judgment, skill and experience having regard to available market information when determining the execution factors and criteria considered below that it needs to take into account for providing the client with best execution.

- (1) Price ;
- (2) Costs;
- (3) Speed of execution and settlement;
- (4) Likelihood of execution and settlement;
- (5) Size of the order;
- (6) Nature of the order;
- (7) Time of reception of orders;
- (8) Market liquidity and impact of the order on the market;
- (9) The client specific instructions; and
- (10) Any other consideration relevant to the efficient execution of the order

(collectively, the “**Best Execution Factors**”).

The choice of execution venue will be determined in relation to the prioritisation of the execution factors above. These Best Execution Factors are not listed in any particular order of priority. In assessing the relative importance of the Best Execution Factors for a specific scenario, Kingsway will take into account the market information that is available to us and these execution criteria:

- (1) the characteristics of the client;
- (2) regulatory categorisation of the client;
- (3) the characteristics of the relevant order from the client;
- (4) the characteristics of the financial instruments that are the subject of the order; and
- (5) the characteristics of the execution venues to which the order can be directed.

Certain factors are more important than others. When we execute a client order, by default, we will consider the key factors listed above to be the most important. The relative importance of these factors will change in response to the instructions provided or circumstances prevalent in the general market or specific execution venues during the execution of the order.

However, it is noted that on certain products, due to limitations in opening counter broker accounts, Kingsway may be limited to one counter-broker.

C. Application by financial instruments:

Although price and costs are usually the leading factors for most orders, certainty of execution, reduction of market impact and speed of execution might have greater importance depending on

size of the order and the market conditions at any given time. The prioritisation of factors may therefore need to be adjusted to take these circumstances into account in order to ensure the best possible result.

The application of this policy to particular types of financial instruments is further described as the section below. We typically consider the following factors to be of higher importance:

- (1) Securities, Futures and Options**
 - (a) Price
 - (b) Speed of execution and settlement
 - (c) Priority of execution /Time of reception of orders
 - (d) Size

- (2) Funds**
 - (a) Time (the day before the cut-off time)
 - (b) Indicative price

- (3) Fixed Income**
 - (a) Price
 - (b) Costs
 - (c) Speed of execution and settlement
 - (d) Likelihood of execution and settlement
 - (e) Size of the order
 - (f) Nature of the order
 - (g) Time of reception of orders
 - (h) Market liquidity and impact of the order on the market

D. Handling client orders where multiple quotes exist or where pricing information is limited

In cases where multiple quotes exist, Kingsway will generally select based upon best available price though other factors, such as liquidity, market signalling etc. will be taken into consideration which may result in the less favourable price being selected. Execution staff will also ensure the traded price and the next best available quotes obtained are inputted into the system. In cases where pricing information is insufficient or quotes are absent, Kingsway will act in what it generally believes be in the best interest of clients. Where these situations arise, Kingsway will where possible inform the client.

In executing a client's order, we will conduct reasonable diligence, monitor execution outcomes and, where applicable, take steps to obtain multiple quotes. In the absence of multiple quotes, execution staff would obtain sufficient pricing information on a best-effort basis to validate quotes provided to clients.

E. Roles of the Operational and control functions

Kingsway has an obligation to monitor the effectiveness of its order execution arrangements and this policy. This obligation has been incorporated into Kingsway's general compliance monitoring process and business procedures and policies.

The Legal and Compliance Department conducts regular reviews and post trade checking through random sampling of transactions to review the quality of execution and detect and address anomalies.

F. Review of Policy

At least on an annual basis, or more frequently if determined appropriate, Kingsway will conduct a review of this policy and other policies and procedures relating to best execution and execution quality to assess whether they are reasonably designed to achieve best execution. It will review and assess whether:

- (1) the execution venues it uses;
- (2) to exclude or to include additional or different execution venues or brokers;
- (3) to assign different relative importance to the Best Execution Factors; and
- (4) to modify any other aspects of this policy and/or the best execution arrangements.

Kingsway will provide staff with periodic training on best execution as well as updates on internal policies and regulatory and technology developments.

G. Client Disclosure

Kingsway will provide its clients with appropriate information on this policy. To the extent that Kingsway makes any material changes to this policy, it will notify the changes to its clients by publishing an updated version of this policy on the company web-site.