

# Goldman Sachs Asset Management International – Execution Policy

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Effective Date: November 23, 2009

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## I. OVERVIEW

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This document explains Goldman Sachs Asset Management International's (GSAMI's) execution policy in accordance with the regulatory requirements set out in Chapter 11 of the Financial Service's Authority's (FSA) Conduct of Business Sourcebook (COBS 11). Pursuant to these rules, GSAMI must, when providing the service of portfolio management, comply with the obligation to act in accordance with the best interests of its clients when placing orders with other entities for execution that result from decisions by GSAMI to deal in financial instruments on behalf of its clients.

As of the date of this policy, all of GSAMI's clients are categorized as Professional Clients and the policy addresses GSAMI's obligations in respect of this category of clients.

This policy summarises GSAMI's process for taking all reasonable steps when carrying out client order executions to obtain the best possible result for its clients, including the following information:

- GSAMI's approach to client order execution;
- the execution venues that GSAMI generally intends to use to enable it to obtain on a consistent basis the best possible result for the execution of client orders;
- the critical factors affecting the approach to client order execution and the weighting methods applied to such factors; and
- an explanation of the procedures adopted by GSAMI to monitor its execution arrangements and this execution policy.

GSAMI directly manages client assets across multiple asset classes and the following of these are, at the date of this policy, covered: Fundamental Equity, Global Fixed Income, Money Markets and Currency. The aim of this policy is to set out GSAMI's approach to client orders on a general basis and in respect of each asset class.

In the case where a client gives a specific instruction to GSAMI (a situation that should be relatively rare given GSAMI's primary role as a discretionary asset manager) this policy will not be applied for those aspects of the execution relating to the specific instruction.

Subject to any specific instructions that GSAMI accepts from clients, GSAMI takes into account a range of factors in deciding where to execute client orders. These include price, costs, speed, likelihood of execution and settlement, size, nature together with any other consideration relevant to the execution of client orders. In determining the relative importance of these factors GSAMI takes into account its clients' status as professional clients, together with the nature of client orders, the characteristics of the financial instruments to which the order relates and the characteristics of the execution venues to which client orders can be

directed. GSAMI will generally give the highest priority to total consideration, representing the price of the relevant financial instruments and the costs related to execution. However, GSAMI may at its discretion prioritise other factors, including the impact on market prices of executing client orders, the speed and likelihood of execution and the availability of price improvement. GSAMI may prioritise such other factors where there is insufficient immediately available liquidity on the relevant execution venue(s) to execute client orders in full or where GSAMI determines that there are other circumstances such that obtaining the best immediately available price may not be the best possible result for its clients.

In certain circumstances, GSAMI may delegate all or part of the discretionary management of a client portfolio (including delegation to GSAMI's associates). Where GSAMI delegates discretionary management of a client portfolio to an affiliate or a non-affiliate it will ensure that such delegation is permitted in its contractual arrangements with the client. Any such delegate may be subject to the rules of a regulator in the jurisdiction of the delegate (including a jurisdiction outside the EEA) and not be subject to the FSA Rules and may not be required to maintain an order execution policy. In such circumstances, GSAMI is still required to ensure that the service provided to its client is performed in accordance with the best interests of the client and GSAMI shall take all reasonable steps to ensure that its selection of the delegate and the overall management of the portfolio continue to meet this obligation. Further, GSAMI shall ensure that any such delegation shall be governed by the terms of a service provider agreement between GSAMI and the delegate, by virtue of which the delegate will be responsible to GSAMI for the performance of its obligations.

## II. THE ORDER PROCESS

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The GSAMI order process adopts a structured approach from the order decision to the final settlement to facilitate competitive performance and represents a strategy designed to obtain the best possible result for the client.

This policy applies to GSAMI client orders where GSAMI either (i) executes client orders; or (ii) places client orders with other entities for execution that result from decisions by GSAMI to deal. In providing discretionary investment management services, GSAMI places client orders with a wide variety of brokers, both affiliates (where permitted by regulation and client mandates) and non-affiliates, and whether domiciled in the European Economic Area or not.

### *A. Order management*

GSAMI when managing client orders must take all reasonable steps to obtain the best possible order execution result for its clients, having regard to the execution policies described below. This will typically involve the aggregation of orders of different clients. Where orders are aggregated this will occur in accordance with the relevant FSA Rules and records will be maintained as required by those Rules.

The executed orders are allocated to clients fairly and proportionately in accordance with GSAMI's order allocation policy.

### *B. Record keeping*

GSAMI stores the records of its trading activity for a minimum of five years in accordance with the rules of the FSA.

### III. EXECUTION POLICIES

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When taking all reasonable steps to obtain the best possible results for its clients, GSAMI applies different execution methodologies depending on the relevant asset class. This section describes the policies and factors considered generally and for each asset class specifically. The overall driver for GSAMI in the individual asset class execution policies is to obtain the best possible result for the client.

#### 1. Execution venue selection

Under MiFID the generic term “execution venue” is used to describe:

- Systematic Internalisers (principal traders and market makers);
- Multilateral Trading Facilities (MTFs);
- Regulated Markets; or
- Other liquidity providers (including affiliates dealing as principal).

Please refer to Annex A for a list of execution venues used by GSAMI. In selecting appropriate execution venues GSAMI generally seeks best price (taking account of commissions and other transaction costs). However, each execution venue may not necessarily reflect the best price or lowest commission rate since, consistent with its regulatory obligations, GSAMI evaluates trading execution periodically and systematically and considers alternative methods designed to improve the execution process, taking account of a wide variety of execution factors, such as:

- size of order;
- service;
- timing of execution;
- likelihood of execution and settlement; and
- any other consideration GSAMI believes to be relevant in the execution of the order.

Although different execution strategies are used on a case-by-case basis (dependent on market conditions, liquidity, investment strategy and client guidelines), the weighting of the above factors will often be determined by investment objectives for the strategy or by the type of product to be traded. Further information per asset class is set out below.

#### 2. Broker approval process

GSAMI adopts standing procedures relating to its selection of brokers. Before adding a broker to its approved list of counterparties, GSAMI (in certain cases with assistance from its Associates) evaluates *inter alia* the broker:

- competitiveness of commission rates and spreads;

- promptness of execution;
- past history in executing orders;
- clearance and settlement capabilities;
- quality of service;
- willingness to commit capital;
- access to initial public offerings;
- access to markets; and
- perceived creditworthiness, reputation and financial stability.

Generally, Goldman Sachs conducts a credit analysis of each broker that GSAMI proposes to add to its list of approved brokers (based on public data), and analyses the broker's business and reputation (including reviewing any disciplinary actions or criminal proceedings involving the broker or its principals).

This broker approval process is in principle applied in the same manner across all asset classes unless further specified below.

#### ***A. Execution policy: fundamental equity***

Fundamental Equity strategy teams execute transactions on directly accessed markets and MTFs, as well as executing with brokers who are believed to have expertise and the required understanding of GSAMI's trading objectives.

The trade by trade process by which the decision as to the appropriate venue on which to execute any transaction will depend on the reason for the trade (e.g. cash flow or change in analyst view), the number of securities involved, the percentage of average daily volume that the trade represents, the available liquidity in the stock at the time, or any other ground deemed relevant by GSAMI's traders.

In the case of derivative transactions the selection of execution venues will tend to depend on, amongst others, the size of transaction, liquidity, counterparty risk, credit risk and perceived settlement capabilities.

#### ***B. Execution policy: fixed income***

Transactions are generally, but not exclusively, executed on MTFs with approved counterparties. In many cases competitive quotes are sought from two or more counterparties but for larger transactions and/or transactions in less liquid markets a single counterparty may be approached on the basis of that counterparty's suitability for the transaction, especially in cases where GSAMI considers that approaching multiple counterparties may be detrimental to its clients' interests. GSAMI Fixed Income takes into account a range of factors in deciding where and how to execute an order to obtain the best possible result for the client. Consistent liquidity and price are normally the most important factors in this decision. Next in order of preference are: competitiveness of spreads,

promptness of execution, past history in executing orders. When trading Exchange Traded Derivatives (ETDs), particular consideration will be given to: costs, speed and likelihood of execution. Dealing in OTC derivatives will be limited to pre-authorised counterparties with whom legal and ISDA agreements are in place and in such cases the perceived operational efficiency of such counterparties will be relevant.

Where relevant, brokers will be selected on their pricing, liquidity capability, clearance and settlement capabilities, quality of service, access to markets, credit worthiness and financial stability.

### *C. Execution policy: money market instruments*

Transactions in money market instruments are usually done on MTFs, via brokers or systematic internalisers. Generally price will be the most important execution factor. Due to the specific nature of settlement in Money Markets, particular importance is placed on the effectiveness of settlement and clearing when selecting a venue. However, as with the other assets; price, costs, speed of execution, likelihood of execution, speed of settlement, likelihood of settlement, size of order and nature of order are also factors when considering how and where to execute.

The key criteria in selecting a broker for Money Markets will generally be their:

- ability to source products;
- ability to settle the trade;
- timely trading;
- rating;
- length of relationship with GSAMI; and
- ability to deal in very large volumes.

### *D. Execution policy: foreign exchange*

Transactions are generally executed with brokers. Due to the characteristics of spot foreign exchange, a single counterparty will generally be approached for a trade on the basis of counterparty's suitability for that transaction. For larger transactions this may depend on a particular execution strategy according to factors prevailing at the time of the trade. GSAMI foreign exchange traders however will generally obtain competing quotes for rolling FX forward positions and when transacting in over the counter derivatives an option to a derivative.

For both spot and forward FX transactions the predominant factor is best price at the time of execution. Another highly weighted factor is the spread in two-way pricing and currency availability. Quality of brokerage services will also be taken into consideration, including factors such as:

- clearance and settlement capability for the currencies involved;

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- credit worthiness and financial stability;
- timely trading;
- broker rating;
- long standing relationships; and
- ability to deal in very large volumes.

## **IV. BEST POSSIBLE RESULT MONITORING**

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### ***A. Monitoring***

GSAMI monitors the effectiveness of this policy in various ways.

Representatives from the Compliance Department, the Legal Department and the relevant trading desks meet quarterly to review the output of the best execution monitoring completed by the Compliance Department. A summary of this information is provided to the Brokerage Allocation Committee (BAC). The BAC is inter alia comprised of representatives from Trading, Portfolio Management, Divisional Management, Compliance Department and Legal Department. The BAC is a formalised meeting with a set terms of reference and meets on a quarterly basis.

GSAMI regularly monitors its relationships with brokers, including ensuring that applicable counterparty exposure limits are adhered to; reviewing the reputational risk of approved brokers on an ongoing basis; and periodically reviewing financial statements and interim financial reports as needed.

#### **1. Fundamental Equity**

In connection with the transaction costs analysis, the Compliance Department uses exception reporting to identify trades that are outliers compared to the parameters predefined by the Compliance Department. Any exceptions are investigated and raised with the relevant desk.

Broker reviews (focusing on the quality of the broker's execution capabilities) are conducted as required to deliver feedback with representatives of the trading team per strategy and region. Such reviews also consider the negotiation of broker execution rates, taking into account the aggregate level of business and available market rates.

#### **2. Fixed Income**

The Compliance Department runs a “Best Execution” report daily to determine any apparent breaches of this policy, e.g. where:

- a competing “buy” price is lower than the actual traded buy;
- a competing “sell” price is higher than the actual traded sell;
- a competing “buy spread” is higher than actual buy spread;
- a competing “sell spread” is lower than actual sell spread; or
- there is missing data for: buy, sell or spread information.

If any of the above scenarios are flagged, the Compliance Monitoring team will revert to the relevant dealers for explanation or clarification.

Broker reviews are conducted formally approximately every quarter and informally on an ad hoc basis. Performance is measured over a variety of metrics, including pricing and standard of settlement process.

### **3. Money Markets**

GSAMI reviews brokers periodically. The criteria used to measure brokers' performance includes, but is not limited to, pricing, sales coverage, standard of settlement process, liquidity and quality of research.

### **4. Foreign Exchange**

The Compliance Department has a “Best Execution Report” which takes a snapshot of the screen rate from Reuters at the point of trade. The report compares that snapshot to the FX dealer’s booked rate. Where a trade falls outside the permitted tolerance, the FX dealer will be required to explain or clarify such transaction.

The FX Desk carries out an annual survey of broker service. Performance is measured over a variety of metrics, including, pricing, quality of research, sales coverage, emerging markets coverage and standard of settlement process.

## ***B. Prohibited practices***

With respect to the selection of brokers, the following practices are prohibited:

- trades may not be directed in return for error corrections by a broker;
- trades may not be directed in return for suggested preferential treatment in IPOs or placements;
- trades may not be directed in return for gifts and/or entertainment;
- “directed brokerage” arrangements may not be entered into, other than client-directed or client commission recapture arrangements. These client arrangements must be documented and approved by the GSAMI Legal Department prior to the commencement of the arrangement;
- trades may not be directed in return or recognition for client referrals (separate accounts or sale of fund shares) or for “shelf space”. While this general principle applies to GSAMI’s business in the case of that part of the business subject to the Rules of the SEC, this reflects the terms of Rule 12b-1(h) of the Investment Company Act of 1940. Cash payments in recognition of referrals are governed by the Investment Advisers Act Rule 206(4)-3 (see Cash/Payment for Client Solicitations (Referral Fees)).

In addition, the following procedures apply to minimise or eliminate conflicts:

- portfolio managers must take care not to be influenced by any personal conflicts of interest, such as a family relationship with an employee or owner of a broker. The existence of any such conflicts must be disclosed to the head of the relevant desk or his/her designee;

- the use of a broker that is an affiliate of GSAMI or, in the case of sub-advised funds, an affiliate of the adviser to such funds, may be subject to client and legal restrictions. Such restrictions may arise under applicable securities laws, ERISA or may be imposed directly by clients. Based on the jurisdiction, type of account and security traded on a desk-by-desk and account-by-account basis, the decision to place trades with Goldman Sachs International or any applicable affiliate on an agency or principal basis may require approval in advance by the GSAMI Legal and Compliance Departments;

## **V. REVIEW OF GSAMI'S EXECUTION POLICY**

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GSAMI reviews this execution policy at least annually, as well as whenever a material change occurs that affects its ability to continue to obtain the best possible result for the execution of orders on a consistent basis.

If there is a material change in GSAMI's execution arrangements, GSAMI will notify clients to make them aware of the change.

## GLOSSARY OF TERMS

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**1. MiFID**

The European Parliament and Council Directive on markets in financial instruments (No. 2004/39/EC).

**2. Multilateral Trading Facility, or “MTF”**

A multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments - in the system and in accordance with non-discretionary rules - in a way that results in a contract in accordance with the provision of Title II of MiFID.

**3. Regulated Market**

A multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments - in the system and in accordance with its non-discretionary rules - in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions of Title III of MiFID.

**4. Systematic Internaliser**

An investment firm which, on an organised, frequent and systematic basis, deals on own account by executing client orders outside a Regulated Market or MTF.

**5. FSA Rules**

The rules and guidance set out in the FSA Handbook, as amended from time to time.

## ANNEX A: EXECUTION VENUES

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GSAMI may use the following execution venues when obtaining best execution as defined by the Markets in Financial Instruments Directive. This list is not exhaustive and may be subject to changes as described in the Order Execution Policy and may be revised from time to time. GSAMI may also use other venues not listed below where it deems appropriate in accordance with the Order Execution Policy and remove any venues from the list.

### *A. Exchanges for Cash Equities*

American Stock Exchange AMEX  
Athens Stock Exchange  
Australian Securities Exchange  
Borsa Italiana  
Budapest Stock Exchange  
Cairo & Alexandria Stock Exchange  
Chi-X  
Frankfurt Stock Exchange (including Xetra trading platform)  
Hong Kong Stock Exchange  
Irish Stock Exchange  
Istanbul Stock Exchange  
Jakarta Stock Exchange  
Johannesburg Stock Exchange  
London Stock Exchange  
Madrid Stock Exchange  
Mexican Stock Exchange  
NASDAQ  
New York Stock Exchange  
New Zealand Stock Exchange  
NYSE ARCA  
NYSE Euronext Amsterdam Stock Exchange  
NYSE Euronext Brussels Stock Exchange  
NYSE Euronext Lisbon Stock Exchange  
NYSE Euronext Paris Stock Exchange

OMX Stockholm Exchange  
OMX Helsinki Exchange  
OMX Copenhagen Exchange  
Oslo Stock Exchange  
Philippine Stock Exchange  
Prague Stock Exchange  
Russian Trading System Stock Exchange  
Sao Paulo Stock Exchange BOVESPA  
Korea Stock Exchange  
Stock Exchange of Singapore  
SWX Europe  
SWX Swiss Exchange  
Stock Exchange of Thailand  
Taiwan Stock Exchange  
Tel Aviv Stock Exchange  
Tokyo Stock Exchange  
Toronto Stock Exchange  
Turquoise  
Vienna Stock Exchange  
Warsaw Stock Exchange

***B. Exchanges for Units / Shares in Funds***

American Stock Exchange AMEX  
NYSE Euronext Amsterdam Stock Exchange  
Athens Stock Exchange  
Australian Securities Exchange  
Stock Exchange of Thailand  
NYSE Euronext Brussels Stock Exchange  
Budapest Stock Exchange  
Cairo & Alexandria Stock Exchange  
OMX Stockholm Exchange  
OMX Helsinki Exchange  
OMX Copenhagen Exchange  
Frankfurt Stock Exchange (including Xetra trading platform)

Hong Kong Stock Exchange  
Istanbul Stock Exchange  
Jakarta Stock Exchange  
Johannesburg Stock Exchange  
NYSE Euronext Lisbon Stock Exchange  
London Stock Exchange  
Madrid Stock Exchange  
Mexican Stock Exchange  
Borsa Italiana  
Russian Trading System Stock Exchange  
NASDAQ  
New York Stock Exchange  
New Zealand Stock Exchange  
Oslo Stock Exchange  
NYSE ARCA  
NYSE Euronext Paris Stock Exchange  
Philippine Stock Exchange  
Prague Stock Exchange  
Sao Paulo Stock Exchange BOVESPA  
Korea Stock Exchange  
Stock Exchange of Singapore  
Taiwan Stock Exchange  
Tel Aviv Stock Exchange  
Tokyo Stock Exchange  
Toronto Stock Exchange  
Vienna Stock Exchange  
Virt-X  
Warsaw Stock Exchange  
SWX Swiss Exchange

***C. Exchange Traded Derivatives (futures and options)***

Euronext.liffe  
Euronext.liffe Bclear

Euronext Amsterdam  
Eurex Deutschland/Eurex Zürich  
EDX London  
Hong Kong Futures Exchange  
Italian Derivatives Market  
MEFF  
OMX Stockholm Exchange  
OMX Helsinki Exchange  
OMX Copenhagen Exchange  
Brazilian Mercantile & Futures Exchange  
Chicago Board of Trade  
Chicago Mercantile Exchange  
American Stock Exchange  
Australian Securities Exchange  
Boston Option Exchange  
Chicago Board Options Exchange  
CBOE Futures Exchange  
International Securities Exchange  
Korea Exchange  
Nasdaq Liffe Markets, LLC  
National Stock Exchange of India  
OneChicago  
Osaka Securities Exchange  
Philadelphia Stock Exchange  
NYSE ARCA  
Hong Kong Exchanges & Clearing Ltd  
Sydney Futures Exchange  
Singapore Exchange Derivatives Trading  
Thailand Futures Exchange  
Tokyo Stock Exchange

***D. Multilateral Trading Facilities***

ALTES-ATS  
BGC Brokers LP

Bloomberg BondTrader  
Cantor Spreadfair  
CANTORCO2E  
Creditex Realtime  
Creditex Q-WIXX Platform  
Euromts Linkers Market  
Eurobenchmark T-Bills Market  
Eurocredit MTS  
Euroglobal MTS  
Euromts EMTS  
MTS Austria MTSA  
MTS Cedulas Markets  
MTS Greek Market  
MTS Ireland  
MTS Israel  
MTS Quasi-Govt Market  
MTS Slovenia  
NEWEUROMTS  
FXMARKETSPACE LTD  
GFI Creditmatch (Brokers)  
GFI Energymatch  
GFI Forexmatch  
GFI Creditmatch (Securities)  
ICAP Brokertec Platform  
ICAP Energy Trayport Platform  
ICAP ISWAP Platform  
ICAP Hyde Derivatives Trayport Platform  
ETC/Brokertec Platform  
Wclk Platform  
Chi-x Europe Ltd  
Liquidnet Europe  
London Stock Exchange - MTF  
AIM  
Marketaxess Europe Ltd  
Euro-Millennium (NYFIX)

The Plus-Quoted Market  
The Plus-Traded Market  
Reuters Transaction Services Ltd  
Spectronlive Trayport  
Swapstream  
Volbroker  
Sharemark  
Tradeweb / The Tradeweb System  
Tradition CDS  
TFS Green Screen  
TFS Variance Swaps System  
Prebon CDS (Securities)  
Tradeblade (Securities)  
Tradeblade (Treasury & Derivatives)  
Tullett Prebon Energy (Treasury & Derivatives)  
Tullett Prebon Energy (UK)  
Virt-x Exchange Ltd

### *E. Brokers*

Bank of America NA  
Bank of America, London  
Barclays Bank Plc  
Bayerische Hypo-Und Vereinsbank AG  
BNP Paribas Securities Corp.  
Calyon  
Cenkos Securities Ltd  
Charles Stanley & Co Ltd  
CIBC World Markets Corp  
Citigroup Global Markets Ltd  
Credit Suisse First Boston (Europe) Ltd  
Credit Suisse International  
Daiwa Securities SMBC Europe Ltd  
Deutsche Bank AG, London Branch  
Dresdner Kleinwort Securities Ltd

Evolution Securities Ltd  
Exane Ltd  
Execution Ltd  
Fox-Pitt, Kelton Ltd  
Goldman Sachs International  
Goodbody Stockbrokers  
Governor and Company of the Bank of Ireland  
HSBC Bank Plc  
ICAP Securities Ltd  
Intesa Sanpaolo Spa  
Investment Technology Group Ltd  
J.P. Morgan Securities Ltd  
JP Morgan Cazenove Ltd  
Knight Capital Intl  
Lloyds TSB Bank PLC  
Merrill Lynch International  
Mitsubishi UFJ Securities International Plc  
Mitsubishi UFJ Trust International Ltd (MUTI)  
Mizuho International Plc  
Morgan Stanley & Co International Plc  
NewEdge Group  
NCB Stockbrokers Ltd  
Nomura International Plc  
Numis Securities Ltd  
Oriel Securities Ltd  
Rabobank Nederland  
RIA Capital Markets  
Royal Bank of Scotland PLC  
Scotia McLeod Inc, London  
Societe General (London Branch)  
The Bank of Scotland Plc  
UBS AG London Branch  
Unicredit CAIB Securities UK Ltd