



# Trade Management and Best Execution Guidelines

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## INTRODUCTION

The following document outlines the Trade Management and Best Execution Guidelines used by the New Brunswick Investment Management Corporation (NBIMC) to execute its fiduciary responsibilities with investment assets.

These guidelines are practices intended to form a systematic and demonstrable approach to seeking Best Execution when developing and implementing any investment strategy on a trade by trade basis. This document also follows in the spirit of the CFA Institute's Trade Management Guidelines.

These guidelines provide direction in terms of aiding NBIMC to meet the best interests of clients by outlining:

1. Formalized processes, procedures and record-keeping to ensure Best Execution
2. Enhanced oversight of trading functions and monitoring.

## DEFINITION OF BEST EXECUTION

The CFA Institute's Trade Management Task Force<sup>1</sup>, an industry leader in setting global standards and policies, defines Best Execution as follows:

Best Execution refers to a trading process Firms apply that seeks to maximize the value of a client's portfolio given each client's stated investment objectives and constraints. This definition recognizes that Best Execution:

- is intrinsically tied to portfolio-decision value and cannot be evaluated independently;
- is a prospective, statistical, and qualitative concept that cannot be known with certainty ex ante;
- has aspects that may be measured and analyzed over time on an ex post basis, even though such measurement on a trade-by-trade basis may not be meaningful in isolation; and
- is interwoven into complicated, repetitive, and continuing practices and relationships.

The CFA Institute points out that this approach to seeking Best Execution is applicable to all types of transactions. Furthermore, while not prescribing how to measure Best Execution, the above definition should provide additional explanation and guidance toward enhancing the ability for NBIMC to maximize client portfolio values, within their objectives and constraints.

## TRADE MANAGEMENT OVERSIGHT COMMITTEE

NBIMC has established a Trade Management Oversight Committee (TMOC), which is responsible for regularly evaluating and when appropriate, making recommendations to improve trade management policies and procedures, along with the broker selection process to senior management. In its evaluation, the committee may consider such factors as:

- Available alternative trading systems and technology developments
- Commission allocations and trends
- Cost constraints
- Changes in the structure of financial markets
- Administrative implications
- Approval of new brokers
- Evaluation of existing trading counterparties

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<sup>1</sup> The CFA Institute Trade Management Task Force has developed the CFA Institute Trade Management Guidelines, which formalizes suggestions toward creating a systematic approach for seeking Best Execution.

The TMOc committee includes representatives from each investment area within NBIMC, and holds meetings at least on a bi-annual basis.

## **BROKER SELECTION**

In order to ensure that NBIMC conducts business with appropriate counterparties, capable of providing Best Execution, the process for identifying suitable broker/dealers has been formalized. Please refer to our guide “Broker Selection, Monitoring and Approval”. This document details the broker approval process, along with the criteria upon which each firm is evaluated.

## **TRADE EVALUATION PROCESS**

All investment decisions originate from and are authorized by the appropriate Portfolio Managers, via investment authority as delegated by the board of directors. The order and strategy is communicated directly to the responsible trader, who then determines the appropriate method for employing Best Execution. This is based upon a pre-trade analysis of the objective of the portfolio manager, size of the order, and liquidity of the security.

Should a security have limited market liquidity, the trade may require a dealer that has liquidity in that security. The trade therefore may be directed based on the desire to limit the market price impact. Knowledge, research or investment expertise provided by dealers should be considered and rewarded so long as their execution capabilities are sufficient and an acceptable expected rate of return can be achieved. Should the trade idea be derived independently, then dealer choice becomes purely a function of where value can be maximized. Trade settlement efficiency of the firm are also considered, so as to ensure that post-trade counterparty obligations will be properly fulfilled.

Factoring in all these criteria, the trader then determines how and where to execute the order, along with appropriate benchmarks. Trades may be executed through several strategies:

- **Telephone orders** – Order instructions are given to the dealer over the phone. The security, strategy, limits and/or spreads are relayed verbally to the dealer. The trader monitors execution throughout the transaction. Any issues are noted and discussed with the dealer. Upon completion of the order, the trader then specifies the proper account where the transaction(s) will settle and the commission that will be paid to the dealer for their service. Commissions are within permissible market rate ranges, as monitored and discussed through TMOc meetings.
- **Order routing** – Orders can be routed to dealers via an electronic trading platform or execution management system (EMS). All execution parameters are established and controlled by the trader. After routing the order, the trader then

confirms (via telephone or electronic message) that the order has been received by the broker and that all specific trade parameters are correct. The trader monitors the progress of the order throughout its execution via the EMS. Any issues are noted and discussed with the broker/dealer. Commissions are within permissible market rate ranges, as monitored and discussed through TMOC meetings.

- **Direct Market Access Trading** – orders are routed directly to the marketplace via Direct Market Access (DMA) trading platforms. The trader determines when the use of these platforms is appropriate and selects the strategy or algorithm that is used to execute the order. Commissions are within permissible low-cost market rate ranges, as monitored and discussed through TMOC meetings.

Any settlement issues with trades are first the responsibility of the Finance and Administration group. Should an issue persist, the executing trader is notified.

## **TRADING ERRORS**

Errors when striving for Best Execution may occur in two different forms: trade or operational.

### Trade Errors:

Great care is taken to ensure that trade errors between NBIMC and executing counterparties is curtailed. Constant communication and verification of both trade details and the execution strategy is maintained between NBIMC Portfolio Manager, Trader and broker. Any trade discrepancies are communicated immediately to the proper Portfolio Manager and, if material, the Vice-President of the respective team and CIO for further action. Responsibility of the error is reviewed and discussed with senior management.

### Operational Errors:

In order to minimize and identify operational errors, a system of checks and balances with documentation has been established. Once trades are complete, all trade fill confirmations from each investment area are recorded in a trade blotter or an EMS generated report which is provided to Investment Associates, who upload the parameters into NBIMC's accounting system. A generated filled trades report's details are checked and signed off by an appropriate Portfolio Manager, to which it is then provided to staff in the Finance and Administration group. All trades are verified with the Administrative department of the executing broker by the NBIMC accounting clerk responsible for settlements. Should an error be identified regarding trade information, the trader will work with the executing broker to ensure trade details are correct. If an agreement between parties cannot be reached, the issue will be immediately escalated to senior management, and automatically brought to the attention of the TMOC committee.

## RECORD KEEPING

Appropriate records and documentation are maintained and completed in an effort to achieve Best Execution. All of these materials are presented to or prepared by the Trading Management Oversight Committee (TMOC), including:

- Annual Broker selection, review and approval
- Firm-wide and individual investment area commission reports, along with their allocation and trends
- Daily trade blotters