

**Taconic Capital Advisors UK LLP ("TCA UK")**  
**Best Execution Report - 2019**

This report includes certain information in respect of TCA UK's trade execution during the period from January 1, 2019 to December 31, 2019 (the "Reporting Period"). This information is made available by TCA UK in order to comply with the best execution obligations set out under the Markets in Financial Instrument Directive II ("MiFID II") and Article 3 of the Regulatory Technical Standards 28 (together the "Regulation"). This report has been produced in accordance with the Regulation.

**Top Five Brokers**

<b>Class of Instrument:</b>	<b>Equities – Shares &amp; Depository Receipts</b>
Notification if <1 average trade per business day in the previous year	<b>Yes</b>

Top five execution brokers ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class	Percentage of passive orders	Percentage of aggressive orders	Percentage of directed orders
Fossar 529900T0SDZCXS5QS72	40.65%	1.42%	N/A	N/A	N/A
Goldman Sachs International W22LROWP2IHZNBB6K528	21.94%	46.10%	N/A	N/A	N/A
Credit Suisse DL6FFRRLF74S01HE2M14	20.79%	17.73%	N/A	N/A	N/A
Jefferies International Limited S5THZMDUJCTQZBTRVI98	3.66%	7.09%	N/A	N/A	N/A
JP Morgan K6Q0W1PS1L1O4IQL9C32	3.64%	8.51%	N/A	N/A	N/A

<b>Class of Instrument:</b>	<b>Equity Derivatives – Swaps and other equity derivatives</b>
Notification if <1 average trade per business day in the previous year	<b>Yes</b>

Top five execution brokers ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class	Percentage of passive orders	Percentage of aggressive orders	Percentage of directed orders
Goldman Sachs International W22LROWP2IHZNBB6K528	59.27%	44.55%	N/A	N/A	N/A
Merrill Lynch International GGDZP1UYGU9STUHRDP48	12.49%	14.55%	N/A	N/A	N/A
JP Morgan K6Q0W1PS1L1O4IQL9C32	11.71%	16.36%	N/A	N/A	N/A
Jefferies International Limited S5THZMDUJCTQZBTRVI98	7.38%	10.00%	N/A	N/A	N/A
Credit Suisse DL6FFRRLF74S01HE2M14	5.65%	11.82%	N/A	N/A	N/A

<b>Class of Instrument:</b>	<b>Debt Instrument</b>
Notification if <1 average trade per business day in the previous year	<b>Yes</b>

Top five execution brokers ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class	Percentage of passive orders	Percentage of aggressive orders	Percentage of directed orders
Goldman Sachs International W22LROWP2IHZNBB6K528	33.32%	30.30%	N/A	N/A	N/A
Stifel Nicolaus Europe Limited 213800BVEFNZ8UYPKL03	15.10%	12.12%	N/A	N/A	N/A
Citibank Global Markets Limited XKZZ2JZF41MRHTR1V493	14.57%	15.15%	N/A	N/A	N/A
ARCTICSECURITIES AS 5967007LIEEXZX4RVS72	9.19%	6.06%	N/A	N/A	N/A
SC LOWY Asset Management (UK) Limited 254900QF4TEKQYQAYH56	7.24%	6.06%	N/A	N/A	N/A

<b>Class of Instrument:</b>	<b>Security Financing Transactions</b>
Notification if <1 average trade per business day in the previous year	<b>Yes</b>

Top five execution brokers ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class	Percentage of passive orders	Percentage of aggressive orders	Percentage of directed orders
Goldman Sachs International W22LROWP2IHZNBB6K528	79.37%	66.67%	N/A	N/A	N/A
Merrill Lynch International GGDZP1UYGU9STUHRDP48	12.45%	14.29%	N/A	N/A	N/A
Jefferies International Limited S5THZMDUJCTQZBTRVI98	4.68%	9.52%	N/A	N/A	N/A
JP Morgan K6Q0W1PS1L1O4IQL9C32	3.49%	9.52%	N/A	N/A	N/A

This report excludes any financial instruments in which TCA UK did not trade. This report also excludes financial instruments in which TCA UK executed a small number of orders (i.e. securitized derivatives, commodities derivatives and credit derivatives).

### **Best Execution Policy and Analysis**

TCAUK's delivery of best execution is a key element in its commitment to act in the best interests of its clients, as well as being a regulatory requirement. TCAUK is required to take all sufficient steps to obtain the best possible result for its clients when it executes, places or transmits orders on their behalf, taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order (referred to as the 'execution factors').

The relative importance of the execution factors are judged on an order-by-order basis in line with TCAUK's industry experience and prevailing market conditions; however, common key factors for relevant asset classes have been identified as follows:

## **Equities**

For small direct orders over a short period of time, the key factors will generally be price, speed, quantity based on market availability, and likelihood of execution. For larger orders executed across a period of time, TCAUK will additionally take into account confidentiality, minimizing the impact on the market, order flows and slippage historically achieved on each venue.

Where transactions are executed indirectly, relevant factors include as applicable:

- overall costs including broker fee schedules;
- impact on the market;
- the broker's execution capabilities;
- overall broker's desk strength;
- the promptness of the broker's orders and their reporting of those orders to Taconic;
- and observed slippage.

The impact of implicit costs must be taken into account when considering the execution strategy of orders to ensure that they are managed and do not result in an undue impact to total costs. (Implicit costs result from how a trade is executed for example, immediately or worked over a period of time, in a block, aggregated with other trades, or as child orders sent to multiple different execution venues). A trade may appear more expensive in terms of explicit costs but may be less expensive when implicit costs are considered.

## **Fixed Income**

The process for evaluating best execution in the fixed income context is somewhat limited, due to a number of factors including the lack of transparency in the fixed income markets; the smaller universe of traders with which to trade in many cases and the lower level of liquidity in fixed income markets. However, the FCA requires that where a firm deals in OTC products, it must take into account external market data and externally verifiable reference prices (where available), when pricing or checking the price of OTC products (including bespoke instruments). These checks must be recorded where applicable to assist TCAUK in monitoring its best execution arrangements.

TCAUK considers the following factors when executing fixed income trades: price, transaction costs, existing broker relationship, execution venue, and the broker's execution capabilities, overall desk strength and ability to deal with difficult trades in general.

## **Special Considerations Relating to FX Trading**

The spreads in the FX market are extremely small, and most trading is done through a Bloomberg interface that enables TCAUK to trade directly with the relevant counterparty, which is generally one of TCAUK's prime brokers.

Because spreads are so small in the FX market, while there may be the occasional instance where comparing one dealer's price to another's will result in a marginally better price, if there are four or five dealers that could handle a trade the difference in pricing for most currencies is generally extremely small. Often the decision on a counterparty is driven not by price but by efficiencies gained by trading with a counterparty where the Taconic Funds hold large cash balances.

## Derivatives

Where derivatives are executed directly, key factors typically considered are price, observed volume on exchange, and overall transaction costs. On occasion, preference may be given to counterparties that are operationally easier to work with where time factors are at play.

Where orders are executed indirectly, relevant factors are costs and the existing broker relationship.

For more illiquid derivatives, where execution options are available, historical price and liquidity are the key factors for execution.

## Trading Venues

From time to time, TCAUK may have orders routed or placed on an execution venue. In addition to the execution factors outlined above, TCAUK may take into account certain factors when choosing the execution venue, where there are multiple choices including the costs for TCAUK's clients for executing orders. These have been summarised below:

Instrument Type	Key Factors Affecting Choice of Venue
Equities and ETFs	<p>Direct: Circuit breakers; breadth of market coverage; market share</p> <p>Indirect: Overall costs of a transaction including commissions, mark-ups, markdowns or spreads; reputation; financial strength and stability; ongoing reliability; block trading and block positioning capabilities</p>
Fixed Income	Breadth of market coverage; willingness to put balance sheet at risk for non-centrally cleared OTC transactions ongoing reliability; willingness to execute difficult transactions; execution of an ISDA Master Agreement with TCAUK's clients
Derivatives - Futures and options admitted to trading on a trading venue	Accurate and timely execution, settlement, clearance and error/dispute resolution processes; information regarding trading activity
Derivatives - swaps, forwards, and other derivatives	Reputation, financial strength and stability; willingness and ability to locate and/or commit capital to complete transactions; execution at a desired time for the transaction

## **Broker Arrangements**

A conflict of interest may exist in that certain brokers that execute transactions for a Taconic Fund may also provide prime brokerage services, including capital introductions, for that Fund. In addition, affiliates of certain executing brokers may invest in one or more Taconic Funds. TCA UK does not consider whether a broker provides prime brokerage services or whether its affiliate invests in the Funds when TCA UK evaluates such broker's execution quality or select brokers to execute trades. TCA UK does not engage in directed brokerage arrangements nor has any affiliated brokers or venues.

## **The Trade and Brokerage Allocation Committee (the "Committee")**

TCA UK has a Committee to guide and supervise the broker selection process and which meets on a quarterly basis to assess whether TCA UK is meeting its duty to seek best execution. The Committee has overall oversight responsibility for TCA UK's policies and practices with respect to the execution of transactions for client accounts.

On a quarterly basis, the investing desk staff meets to discuss the research products or services used by each staff member. The investing desk staff then discusses the quality of the research provided by each broker. In addition to the research assessment provided by the investing desk, the trading staff also reviews on a quarterly basis the execution quality of all broker-dealers used by TCA UK. The trading staff also reviews the quality of the sales trader assigned to TCA in terms of such person's responsiveness, reliability and general effectiveness, and factors that into the overall assessment of the broker for execution. The Committee reviews both the execution assessment and the research assessment to assess and monitor execution quality and the value of research services provided to TCA by each broker-dealer.

## **Order Execution, Monitoring and Summary**

TCA UK is a subadvisor to Taconic Capital Advisors L.P. ("TCA LP") in respect to certain Funds (the "Funds"). TCA UK's sole client is TCA LP, which is classified as a professional client for purposes of MiFID II. TCA LP has delegated discretion to TCA UK to execute orders on behalf of the Funds, each of which is classified as a professional client. TCA UK's order execution arrangements do not vary for any class of financial instrument based upon client categorization, given that all of TCA UK's clients are professional clients. TCA UK does not execute orders for retail clients.

TCA UK conducts periodic reviews of its order execution activities to monitor the quality of the execution obtained. TCA UK may utilize internal tools and market data, where applicable, to monitor trading activity in accordance with its best execution policy. TCA UK tracks and reviews execution factors for trades. The relative importance given to the execution factors for each class of instrument was in line with the TCA UK's best execution policy.

TCA UK maintains an Approved Broker List. Transactions were executed only with brokers on the Approved Broker List which comprised counterparties that we believe to be the most reliable and provide the best execution services. During the Reporting Period, new brokers were added to the Approved Broker List. These new brokers were added to the Approved Broker List primarily for their specialization in particular instruments, markets, or geographies, their ability to source inventory or market flow, or for their ability to obtain favorable pricing or low overall transaction costs at a given order size.

The Funds pay any exchange fees and/or commission associated with orders executed by TCA UK on behalf of such Funds. Neither TCA UK nor the Funds make payments (other than settlement price, which may include fees and commissions) to, or receive payments (in the form of discounts, rebates, or otherwise) from execution venues or brokers in connection with the execution of orders by TCA UK. TCA UK may receive minor non-monetary benefits, such as market commentary, from its brokers and other counterparties in accordance with MiFID II. TCA UK does not believe that the receipt of such minor non-monetary benefits induce TCA UK to make execution decisions that are inconsistent with its obligation to obtain the best possible result for its clients.