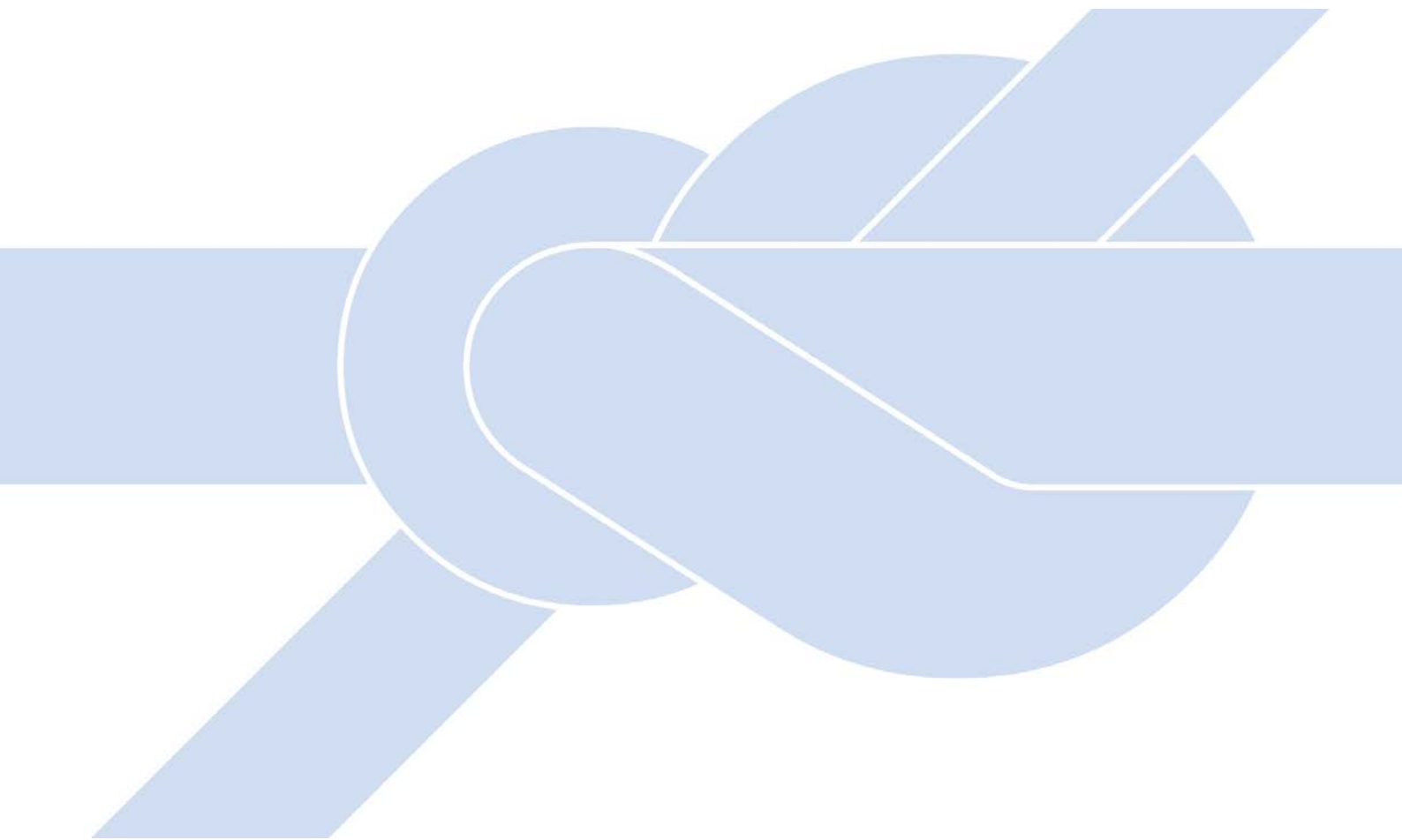




## **Form ADV Part 2A**

**Record Currency Management Limited (Record)**

### **Brochure**





## Item 1. Cover Page

Record Currency Management Limited  
Morgan House  
Madeira Walk  
Windsor  
England  
SL4 1EP

<http://www.recordcm.com/>

**April 11, 2018**

This brochure provides information about the qualifications and business practices of Record Currency Management Limited. If you have any questions about the contents of this brochure, please contact us at +44 (0) 1753 852 222 and/or [ClientTeam@recordcm.com](mailto:ClientTeam@recordcm.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Record Currency Management Limited is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Record Currency Management Limited's CRD number is 110893.



## **Item 2. Summary of material changes**

1. Item 4 – Updated corporate and regulatory structure of Record plc to include Record Currency Management (Switzerland) GmbH
2. Item 4 - Updated strategy description and AUME table to mirror service breakdown structure in Record plc Annual Report
3. Item 12 – Updated Best Execution policy for MIFID II



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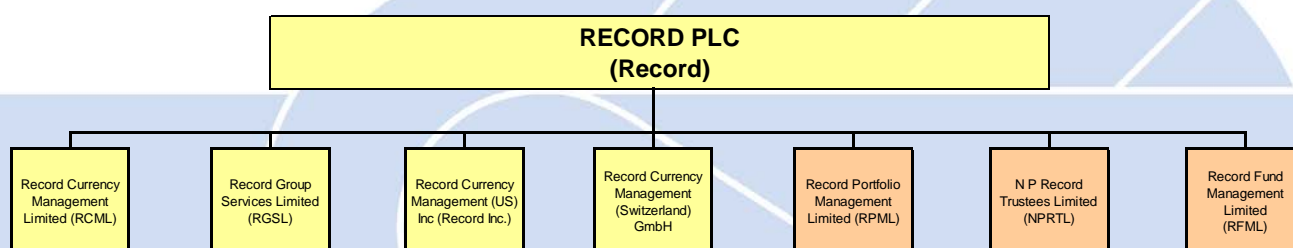


## Item 4. Advisory Business

At Record, our principal focus is on currency management and developing a deep understanding of the risk and reward opportunities in currency markets. All currency management activities are carried out from our head office in Windsor, UK. Record Currency Management Limited (RCML), Record Currency Management (US) Inc. (Record Inc.) and Record Currency Management (Switzerland) GmbH (Record Switzerland) are 100% owned by their parent holding company Record plc. Record plc is listed on the Main Market of the London Stock Exchange since our IPO in 2007.

Record was founded in 1983 by Neil Record and is a regulated provider of currency management services. Directors and staff have a majority interest in the firm.

Our corporate and regulatory structure is shown on the following diagram and tables:



Record plc	HOLDING COMPANY
Record Currency Management Limited	FCA, SEC & CFTC registered trading company with contractual relationships with all clients
Record Group Services Limited	Group service company, provides employees and owns all group assets
Record Currency Management (US) Inc	US CFTC & SEC registered company (providing limited advice to specific US clients of RCML)
Record Currency Management (Switzerland) GmbH	Swiss service company, provides employees to RCML
Record Portfolio Management Limited	Ceased trading Jan 2007 (previously FSA registered providing management advice to the group pension fund)
N P Record Trustees Limited	Trust Company for the Group Long Term Incentive Plan (LTIP) – dormant company
Record Fund Management Limited	Dormant company

Record plc's ownership structure as at December 31, 2017 is as follows:

Shareholder group	% shares owned
Record plc directors	46%
Other Record Group employees	9%
Other investors	45%



## **Advisory Services**

Record provides investment advisory and implementation services to its clients of appropriate categorization. The specific services provided by Record to a particular client depend upon the investment objectives and restrictions, investment instrument limitations and guidelines agreed with the client, as set forth in the documents governing Record's agreement with the client.

Record provides advisory services and implementation through separately managed accounts, funds under the laws of a country outside of the United States.

Record operates various types of currency mandates for clients:

(a) Passive currency hedging

Passive hedging removes a fixed proportion of currency risk, both the upside and downside. Record's Passive Hedging programs are designed to minimize transaction costs and to make the resultant cash flows easier to manage. We offer additional services to target opportunistic value through active tenor management. Record also offers certain individual component parts of its passive hedging offering on their own or in combination to achieve the Client's specific objectives as set out in the Investment Management Agreement.

(b) Dynamic currency hedging

Dynamic hedging varies the size of the hedge through time depending on the price path of the exchange rate aiming to participate in the upside and protect against the downside, in accordance with the investment strategy of the mandate.

(c) Signal currency hedging

Signal hedging varies the size of the hedge through time, taking into account the exchange rate movements, over- and under- valuations, and interest rates to determine the size of the hedge, aiming to participate in the upside and protect against the downside. Record currently offers its Signal Hedging strategy as a segregated mandate.

(d) Currency for return

Record currently has a suite of four currency for return strategies being Carry, Value, Momentum and Emerging Markets. Record's investment philosophy is underpinned by a belief in the transparent exploitation of well-understood, persistent risk premia and inefficiencies observed in the FX market.



Carry is the empirical observation that high interest rate currencies tend to outperform lower interest rate currencies over the medium-term.

Value is the observation that over the long term currencies will revert to fair value, such that undervalued currencies will appreciate and vice versa.

Momentum is the observation that currencies tend to trend, appreciating after a prior appreciation and vice versa.

Holding Emerging Market currencies targets to benefit from real exchange rate appreciation as a result of the economic convergence of emerging markets to developed markets, as well as offering higher positive real yields.

Additionally, Record is able to offer combinations of these strategies under a Multi-Strategy approach that seeks to target a diversified source of return from the currency markets through a combination of market inefficiencies and risk premia. By combining multiple return drivers, returns are targeted from a variety of market conditions and reduce the correlation of their currency program to other asset classes.

Record is able to offer many of these strategies in either a segregated or fund offering.

(e) Ancillary services

- (i) Cash Management - Clients with one of the above services (a-d) or on a standalone basis can have cash management services and/or equitization services relating to the cash put aside to support the currency program or to enable them to achieve specific objectives.
- (ii) Currency Execution – Record offers unconflicted fiduciary currency execution services in currency spot and forward transactions.
- (iii) Currency Audit – we examine and analyze the foreign exchange deals done for a Client by its third-party providers and compare that performance against our in-house and / or third-party databases of historical currency rates to see whether excess costs have been incurred in the past, and give advice on how to avoid them in the future.
- (iv) Collateral Management – where employed to perform collateral management services for our Clients, we manage and monitor daily FX margin requirements and collateral, either due to a regulatory requirement or the Client's choice of collateralized bank lines. Our offering includes a full spectrum of services, including margin determination, processing and movement as well as helping in any operational interaction with counterparty banks (e.g. CSA negotiation) and/or an FX prime broker.
- (v) Provision of signals - for the Client to trade (or have traded) on their own or their clients' accounts.



Our advice is limited to the types of investments stated above.

### **AUME**

As a currency manager Record manages only the impact of foreign exchange and not the underlying assets, therefore its "assets under management" are notional rather than tangible. To distinguish this from the AUM of conventional asset managers, Record uses the concept of Assets under Management Equivalents ("AUME") and by convention this is quoted in US dollars.

<b>AUME composition by strategy (US Dollars)</b>	<b>Dec 29, 2017</b>		<b>Mar 31, 2017</b>	
	<b>US \$bn</b>	<b>%</b>	<b>US \$bn</b>	<b>%</b>
Dynamic Hedging	4.5	7%	6.3	11%
Passive Hedging	54.3	85%	48.2	83%
Currency for Return	1.7	3%	1.0	2%
Multi-product	3.1	5%	2.5	4%
Cash	0.4	1%	0.2	%
<b>Total</b>	<b>63.9</b>	<b>100%</b>	<b>58.2</b>	<b>100%</b>





## **Item 5. Fees and Compensation**

Currency for return, passive and dynamic hedging fees consist of either a management fee based on the gross value of currency positions managed or a lower management fee on the same terms with an additional performance fee charged on returns above an agreed benchmark. There are no standard fees as all exposures have their own unique characteristics.

Fees may vary according to complexity (non-standard implementation), mandate size, gearing and return target offered. In addition, clients who have seeded strategies or who have been early participants in strategies may have received preferable rates. Average fee rates are available in the annual and semi-annual report and accounts.

Record typically invoices clients quarterly in arrears for fees due.

Clients may also be subject to additional fees in relation to services provided by Record but these fees are not controlled or influenced by Record. Typical types of additional fees that clients may face and consider are custodian fees and prime broker fees where applicable.

Record has never received any soft commission and although Record has third party introducer arrangements in place, there are currently no third party introducer arrangements in place which would have any effect on US accounts. For the avoidance of doubt, Record's current third party introducer arrangements are based solely on non-US clients introduced through specific firms and the nature of the arrangement would be disclosed to any prospective client. Should this change for US clients, then it is Record's policy to provide any client impacted with full disclosure of the details.

Record compensates its affiliate, Record Inc. via a management fee agreement. Record's US sales executive receives a salary and participates in group profit share schemes.

Our only income, hard or soft, from currency management activity, is the fees paid to us by our clients. As a result, our execution of client trades is entirely price-driven i.e. to achieve the best possible outcome for our clients, with no other criteria (except for any agreed credit criteria) applied.



## **Item 6. Performance-based Fees and side-by-side management**

Record has a fiduciary duty to the clients on whose behalf it manages assets. This duty is appropriate in all cases where Record has discretion over the investment process. A brief summary of Record's commitment to this duty is demonstrated by the following:

- Record is regulated by the UK Financial Conduct Authority and as such has to adhere to the FCA's Principles for Business which includes items such as the need to act with integrity and to treat customers fairly.
- Record manages all its clients' accounts in accordance with contractually agreed investment guidelines.
- Any breach of these guidelines will be reported to the client in a timely manner.
- Record's main trade execution objective is to achieve the best possible outcome for its clients. This is done in accordance with our documented Best Execution and Order Allocation policies.
- Record's standard process is to set up a panel of banks with whom to trade on the client's behalf and this is done via netting agreements. This ensures diversification across a number of counterparties in order to reduce credit risk. Record has a documented Credit Risk Policy which makes this process clear.
- Record has Conflicts of Interest and Code of Ethics policies in place.

As per Item 5 above, currency for return, passive and dynamic hedging fees consist of either a management fee based on the gross value of currency positions managed or a lower management fee on the same terms with an additional performance fee charged on returns above an agreed benchmark.

The above combination means that Record operates "side-by-side management" of accounts in that we manage a variety of accounts which may in some instances be the same strategy for a different fee structure. This gives rise to potential conflicts of interests and we discuss below how these potential conflicts are dealt with.

Record manages all client accounts in the utmost good faith and our primary aim is to ensure we achieve the best results for our clients. Our dealing policies make our processes clear and adherence to these policies is ensured by management oversight, compliance oversight and both internal and external audit functions.



### **Conflicts of interest relating to performance based fees when engaging in side-by-side management**

As of the date of this brochure, Record has no US clients who pay a performance fee but because this may change in the future, we have detailed below how we manage the potential conflict of side-by-side management.

Record manages accounts that are charged a management fee based on the gross value of currency positions managed or a lower management fee on the same terms with an additional performance fee charged on returns above an agreed benchmark. Record therefore could have a financial incentive to favor accounts with performance based fees.

It is Record's standard practice to set performance fee scales for clients at a modest premium to a management-only fee structure when viewed over a full cycle, such that Record is compensated for the additional volatility in revenues from performance fees. In other words, Record is indifferent to a management fee only or a management fee plus performance fee because in a full cycle of investment performance, both fee options would, broadly speaking, contribute similarly to shareholder value. This is a deliberate design characteristic to avoid any conflict between different fee structures. Where discretionary override is permitted, the decision making processes involve more than one individual and record keeping rules require full documentation of reasons for the decision taking account of individual client objectives (where the decision is specific to an account rather than across all accounts), base currency, exposure and market conditions at the time.

#### Client dealing

The majority of Record's services are predominantly systematic and the nature of the systematic investment process and the instruments that are traded mean few conflict issues arise.

Client orders may be aggregated with those of other clients or disaggregated. This is done to the extent required to achieve normal market size transactions that will be likely to result in the best price. Trades are generally executed in total and the client will receive their full allocation at point of execution.

Should a trade for a number of clients be executed in tranches, the system ensures that each client participates in each tranche pro rata the initial order and hence achieves the same average price.

Where discretionary decisions are made (either within parameters of systematic strategy manuals or for bespoke discretionary currency management services), each decision takes



account of any potential conflict and where this would not be in the client's best interest, the decision would not be taken.

#### Netting buyers and sellers

Client orders may be aggregated during the execution process for forward foreign exchange transactions. When this occurs, as with any netted trade, each client will receive the same price. In the example where the net trade is a purchase, the client(s) on the sale side of the trade will benefit by receiving the purchase side of the price, and will have thus crossed the spread. The client(s) on the purchase side of the trade will also receive the purchase price. The client(s) on the purchase side is therefore not disadvantaged by the process of netting the trades; however, the client(s) may benefit from receiving an improved price due to the net size of the trade being smaller.

#### **Conflicts of interest relating to Record own account trading**

##### Transactions where Record plc is involved

The primary consideration for all Record plc seeded strategies where they trade the same instruments as other clients is that there should be no detriment to the clients as a result of this trade. Record plc seeded strategies are small compared to the market volume such that they could not influence the price.

##### Record Group Dealing

Record Group Services Limited (RGSL), a subsidiary of Record plc and service company to the other entities within the Record group, seeks from time to time to convert non-Sterling receivables into Sterling. The direction of the trade is always the same. The order is placed by the Finance department, who are independent of the trading and portfolio management teams, and is passed to the traders for execution. Any such order is executed by the traders and is executed after the trading runs for clients are completed.

##### Record plc and Record Currency Management Limited

As previously stated, the Boards of Record plc and Record Currency Management Limited are identical. Should any situation occur when a conflict of interest arose between the interests of the client of Record Currency Management Limited against the interests of the shareholders of Record plc then such matters must be escalated to, and any decisions ratified by, the Audit and Risk Committee.

The revenue stream of Record plc is derived from dividends sourced from Record Currency Management Limited fees, both management and performance based. The financial success



of Record plc therefore rises and falls with investor returns and AuME. In addition, the success of Record plc depends on maintaining strong long term relationships with clients and a strong reputation in the market to attract new clients. Given the alignment of interests and the long term nature of the business model, a conflict between Record plc and Record Currency Management Limited would be considered to be a rare occurrence.

Certain Executive Directors are also significant shareholders of Record plc and their financial interests are therefore significantly aligned to the development of the share price. A conflict could arise if management decisions were taken that favored the short term share price performance (prior to a large sale of shares) over long term share price considerations. Given the systematic implementation of the strategies and the long term nature of the underlying client relationships there is little opportunity for such a conflict to arise. Where a management action is likely to affect the short term share price performance the Board has the obligation and the power to manage that process, and where necessary, may limit the ability of the individuals, particularly those Persons Discharging Management Responsibility or Investment Committee members recommending the measures, to trade for a period of time.



## Item 7. Types of Clients

In addition to investment funds, corporations, charitable organizations and pension plans, Record also works for quasi-governmental organizations and a very small number of individuals who must be deemed elective professional clients under the FCA rules.

Record imposes a minimum account size because of the necessity of dealing in the interbank foreign exchange market. The minimum account size varies by strategy and is typically \$25 million for passive and dynamic hedging and segregated currency for return mandates. Minimum investment amounts for Record's pooled funds are typically €100,000.

Pooled funds are not currently publicly marketed in the US.



## **Item 8. Methods of analysis, investment strategies and risk of loss**

Record typically uses statistical approaches to the measurement of currency risk, which is incorporated in its proprietary trading models.

The principal information sources used by Record in managing the currency exposures are live data feeds such as Reuters and Bloomberg. For historical analysis Record uses its own database of currency information built up from public sources. The information is fed into our proprietary system to provide buy/sell instructions, for spot transaction and forward exchange contracts.

Record's core strategies are passive hedging, active hedging (encompassing both dynamic hedging and signal hedging) and currency for return mandates.

### Passive Hedging

The passive hedging strategy is non-discretionary hedging of a proportion of the client's international assets. Passive hedging involves the symmetrical elimination of currency volatility, whether beneficial or adverse.

Record's passive hedging programs are designed to minimize transaction costs, to make the resultant cash flows easier to manage and to add opportunistic value through active tenor management.

### Signal Hedging

The signal hedging strategy uses rule-based methods (based on interest rate differentials, momentum and value) that seek greater exposure to hedges that are expected to be profitable, and reduced exposure to hedges that are expected to be loss-making.

The quantitative signals are used to determine the hedge ratios on each exposure currency on a periodic basis.

### Dynamic Hedging

The dynamic hedging strategy allows discretion around the extent of hedging in place and is systematically applied to remove foreign currency exposure during periods where those currencies are observed to be weakening against the base currency.

Dynamic Hedging imposes a systematic process to seek to protect clients from adverse currency movements, whilst allowing clients to benefit from positive movements. This is therefore an asymmetric process, which provides downside protection.





## Currency for Return

The currency for return strategies use largely-systematically applied proprietary investment approaches to seek to add excess return over an agreed benchmark.

Record has a range of currency return-seeking strategies. These take advantage of key return opportunities in the currency markets, in particular the Forward Rate Bias, or FRB, and Emerging Markets.

### *Forward Rate Bias*

The Forward Rate Bias is the observation that higher interest rate currencies tend to outperform lower interest rate currencies. At Record we regard the Forward Rate Bias as a fundamental and independent risk premium. As such we have a range of strategies that exploit the Forward Rate Bias.

Returns vary according to the risk budget applied. Programs can be structured to meet a wide variety of risk/return objectives.

### *FRB Index*

One of Record's medium to long-term aims is to develop currency as an asset class in its own right. The 'asset class project', which started in 2009, saw the launch of a currency index, the FTSE Currency FRB10 Index, in December 2010. Record launched a pooled fund, the Record Currency FTSE FRB10 Index Fund to track this FTSE index and invested £1m in December 2010. Pooled funds are not currently publicly marketed in the US.

### *Emerging Markets*

We have a range of strategies that are intended to exploit the long-term appreciation potential of emerging market currencies and Record offers both passive and active strategies through either pooled fund structures (pooled funds are not currently publicly marketed in the US) or segregated accounts. Opportunities also exist for optimizing existing emerging market currency exposure in underlying equity and bond portfolios.

### *Momentum*

Momentum in currency is the tendency of the spot rate to appreciate after a prior appreciation, and to depreciate after a prior depreciation. This market inefficiency has persisted across different currency pairs and is present in other asset classes, such as





equities. Currency is commonly thought of as trending and a momentum strategy would seek to make a return from this phenomenon.

### *Value*

Record's research suggests that purchasing power parity (PPP) valuation models have been relatively good predictors of the long-term direction of spot movements. For example, if a currency deviates too much from its equilibrium value (as indicated by PPP), then this deviation will be corrected. The more significant the deviation, the more pressure on the exchange rate to revert to fair value and, consequently, the more rapid the reversion. Currency value strategies exploit this insight, buying currencies that are undervalued relative to PPP and selling currencies that appear overvalued.

### *Multi Strategy*

Record's Multi-Strategy combines some or all of the four strands of FRB ('Carry'), Emerging Markets (EM), Momentum and Value to create balanced, well-diversified portfolio. Allocations to these four strands can be varied on a judgmental basis, taking into account a number of forward-looking risk metrics. The first two, Carry and EM, are currency strategies that tend to perform well in risk-on environments, while the Momentum and Value strands exploit inefficiencies which exhibit low or negative correlation with the former two.

### Counterparty exposure

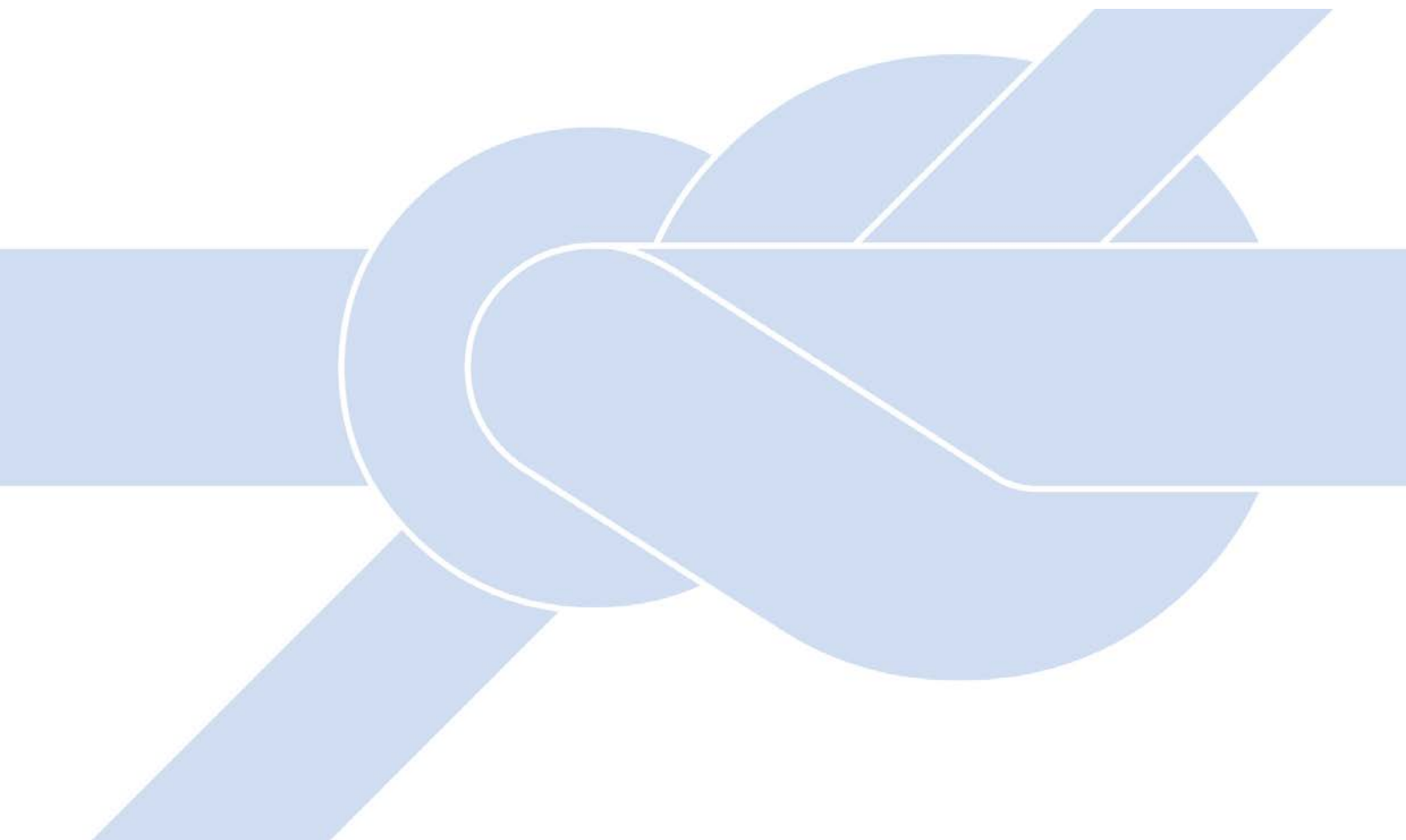
Due to the primary use of over-the-counter (OTC) instruments, clients have exposure to different counterparties. Record is conscious of this exposure and has in place a Credit Risk Policy designed to mitigate this risk (amongst others). This policy is overseen by the Risk Management Committee and counterparties credit ratings are reviewed daily. Additionally, variation margin may also be used or in some cases prescribed by regulation to mitigate and reduce counterparty exposure.

A copy of Record's Credit Risk Policy is available on request.



## **Item 9. Disciplinary Information**

Record has no legal or disciplinary events to report.





## **Item 10. Other financial industry activities and affiliations**

Record is Investment Manager to the Record Umbrella Fund, a Dublin based Qualifying Investor Alternative Investment Fund. Pooled funds are not currently publicly marketed in the US.

Record Currency Management (US) Inc. (Record Inc.) is a 100% owned subsidiary of Record plc. The company was established as a service company to employ US staff and is registered as an Investment Adviser with the SEC and as a Commodity Trading Adviser with the CFTC. Record Inc. provides services to Record in the form of marketing, promoting Record's strategies and services and advises a sub-set of Record's US clients.



## **Item 11. Code of ethics, participation or interest in client transactions and personal trading**

Record has adopted a Code of Ethics in compliance with Rule 204A-1 under the Investment Advisers Act of 1940 ("Advisers Act"). Record is required by Rule 204A-1 to adopt a code of ethics which, among other things, sets forth the standards of business conduct required of its Supervised Persons (as such term is defined in the Code of Ethics) and requires those Supervised Persons to comply with U.S. federal securities laws.

A strict dealing policy is in place and employee compliance is reviewed regularly. Shares in Record plc or any derivative or currency for profit transaction must be pre-cleared. Employees must obtain pre-clearance before directly or indirectly acquiring Beneficial Interest in any security in an Initial Public Offering or a Limited Offering. Other transactions must be declared on a quarterly basis.

For itself, the only financial market transactions that Record undertakes are spot and forward foreign exchange contracts as well as cash management activities. The sole reason for this is to ensure the foreign exchange receivables are fixed in Sterling terms i.e. a transaction hedge and efficient cash management.

A copy of Record's Code of Ethics is available on request.



## Item 12. Brokerage practices

As a currency manager, Record as the client's agent undertakes currency spot and forward transactions with major banks. A panel of banks is agreed with each client or the client agrees to use Record's internally approved bank panel. It is Record policy that:

- All counterparties on the Approved Counterparty List must have long-term ratings from at least two of the following rating agencies: Moody's; Standard & Poor's; and Fitch;
- Where ratings differ between agencies, the lower rating will apply; where ratings are placed on watch for a downgrade, the lower rating (i.e. after the potential downgrade) will apply;
- A counterparty with a long-term rating at or above the minimum threshold set out below is included on the Approved Counterparty List;
- The minimum threshold for a counterparty to be included on the Approved Counterparty List is a long-term rating of A+/A1 for uncollateralised trading and a long-term rating of BBB/Baa2 for collateralised trading;
- Notwithstanding a long-term credit rating at or above the minimum threshold set out above, the Risk Management Committee may still decide not to include a counterparty on the Approved Counterparty List. A variety of factors will be taken into account including, but not limited to credit rating history, both long and short term, credit default swap daily price movement, and the regulatory regime covering the counterparty;
- Counterparties with a long-term credit rating of BBB/Baa2 and above may be included on the Approved Counterparty List, at the discretion of the Risk Management Committee, after careful consideration of factors including, but not limited to credit rating, credit default swap levels, the regulatory regime covering the counterparty and their capital adequacy rules, size and standing of the counterparty in the particular region and the status of any government backing;
- Any downgrades require the Risk Management Committee to re-affirm the inclusion of the counterparty on the Approved Counterparty List;
- The removal of a counterparty from the Approved Counterparty List will result in: (i) no new transactions, except to reduce risk; and (ii) run-off of existing transactions. In some circumstances, the Risk Management Committee may instruct outstanding positions to be



closed and realized in a prudent, but timely manner, as approved under Section 5 Discretionary Decisions.

### **Collateralization**

In order to mitigate credit risk, Record will look at various options that may include collateralization. In some jurisdictions, this may be driven by regulatory obligations. As there are various types of collateralized arrangements on offer, which may include an external party providing the collateralization services, each solution will be assessed on its merits. It is acknowledged that collateralization does not remove all credit risk. There is a risk that the collateral received from a counterparty does not cover the valuation of the position, for example where there is a minimum transfer amount, while any haircuts have an element of credit risk by their nature.

### **Best Execution Policy**

This Policy describes how Record achieves best execution for its clients. At the outset the following factors should be borne in mind when reading this policy:

1. The Foreign Exchange Market (where the vast majority of Record trading takes place) is one of the most liquid and sizeable markets in the world with many competing market makers and with prices moving within milliseconds. As soon as a trade is struck the price will have moved. Transactions in the wholesale Foreign Exchange Market attract no direct fees; the bid/ask spread determines the price for participation.
2. Record does not earn commission on its trades and there are no conflicting entities within the Record Group.

### **1. Overview**

#### **1.1 Overview of Record's approach**

Record operates under discretionary management agreements with each of its clients, which describe the Investment Guidelines within which Record can act. Record acts as agent for all orders that are executed. Record is not the counterparty to any of the orders executed; the counterparties to the order are the client and the counterparty bank with which the order is executed. Record has no ties to any counterparty banks, does not earn commission on the orders it executes and there are no conflicting execution venues or counterparties within the Record Group. Record has a Conflicts of Interest Policy which is provided to all clients.



## **1.2 Scope of instruments covered**

Record executes orders across multiple asset classes and, as at the date of this policy, the following are covered:

- Foreign Exchange (spot, deliverable forwards, non-deliverable forwards, options)
- Exchange Traded Derivatives (index futures, rate futures, bond futures)
- Fixed Income (Treasury Bills, Treasury Inflation Protected Securities (TIPS))

Record may occasionally deal in a variety of other instruments. Traders will make an assessment on a case by case basis, using their experience to select the most appropriate execution methods, and in selecting the most appropriate counterparty with whom to transact, in order that the best overall result for the client is achieved.

## **2. Foreign Exchange**

### **2.1 Background**

The Foreign Exchange Market is one of the most liquid and sizeable markets in the world, with many competing market makers and prices moving within milliseconds. As soon as an order has been executed the price has moved. This section covers the majority of orders executed by Record. Transactions in the wholesale Foreign Exchange Market attract no direct fees; the bid/ask spread determines the price for participation

### **2.2 Counterparty Banks Selection**

Record maintains trading relationships with a range of counterparty banks, in order to access as much of the market's liquidity as possible. For each individual client, Record will seek to put in place a diverse counterparty list, taking into account certain factors which will determine the makeup of each individual list:

- Counterparties are on the Approved Counterparty List (ACL); the criteria for inclusion on the ACL are documented in Record's Credit Risk Policy
- Counterparties are willing to grant the client an FX line
- Client-specific requirements
- Number of counterparties each client is willing to exchange collateral with (where applicable)
- Suitable netting agreement in place





### **2.3 Execution Factors and Process**

Record takes into account the following execution factors when executing an order for any particular client:

1. Counterparty Limits
2. State of Market
3. Price
4. Speed

When executing an order Record will first take into account any client specific counterparty limits documented in the Investment Guidelines. Record traders will examine the order to be carried out bearing in mind the “state” of the market (volatility, activity, current news, etc.). This will also take into account the timing of key data releases. Traders will also look to execute orders in the most liquid part of the day, taking into account the currencies involved in the order.

The trader will decide whether the order is best carried out aggregated with other orders or disaggregated into several smaller orders to ensure a “market size” order; i.e. an order of a size that can be absorbed by the market under prevailing conditions. The policy for aggregating transactions is detailed in the separate Order Allocation Policy.

Subject to any counterparty limits, and the trader’s assessment of the market, the most important execution factor is price. In order to ensure the quotes received are in line with the market, the traders monitor market price feeds showing current market prices/quotes currently available in the market and we take a snapshot of this price/quote automatically at the point of execution. Where appropriate we will ask for quotes from multiple counterparty banks. The winning and losing quotes are stored for analysis referenced in Section 6.

Speed will only be taken into account when a counterparty is deemed to have taken an excessive amount of time to quote for an order, such that the market is likely to have moved significantly from the point at which it was observed originally.

The trader may execute any order either by telephone, or electronically via a multibank system.

In some cases, order execution may target an agreed benchmark rate. Record will monitor the benchmark rate price offerings from the available counterparties and choose the counterparty which offers the best all in price.





### **3. Exchange Traded Derivatives**

#### **3.1 Background**

All exchange traded derivative (ETD) orders are executed on a Recognised Market/Investment Exchange. The relevant exchange is consistent with the contract being transacted.

#### **3.2 Counterparty Broker Selection**

Record's clients do not have direct membership to any exchange. Record passes orders to futures brokers who execute the orders on Record's clients' behalf with the exchange. Futures brokers do not take market risk from the orders received by Record and thus are financially remunerated by clearing and execution fees. These fees are pre-agreed with each futures broker on a contract by contract basis. Record will engage with various brokers in order to ensure fees are reasonable and fair. In many circumstances a client will only have access to one futures broker; this is primarily due to the relatively low volume of exchange traded derivative orders executed and minimum fee clauses.

[Insert to Best Execution Policy – Record does not offer any futures trading services to US clients.]

#### **3.3 Execution Factors and Execution Process**

Record takes into account the following execution factors when executing an ETD order:

1. Costs
2. Price

Record has trading relationships with various futures brokers for the purpose of executing futures orders on behalf of our clients. However, in most situations the client will only have access to one futures broker, as described in Section 3.2. Record instructs the broker to undertake the transactions by telephone or electronically. The futures broker is obliged to complete the order in accordance with their own policies and procedures relating to best execution. Alternatively Record may execute orders via Direct Market Access; in this case the role of the broker is to give Record direct access to the exchange via their membership.

In order to achieve the best result for the client with respect to the investment objectives, Record may instruct the broker to carry out the order at a particular time of day. This may be either the cash close or the futures close depending on the contract being traded and the



liquidity conditions. This practice seeks to maintain a low tracking error vs the client's benchmark. Record may also execute orders at other times, subject to investment objectives and any specific instructions from Record's Investment Management Group, individual client or Portfolio Manager.

Futures orders may be aggregated, and the policy for aggregating transactions is detailed in the separate Order Allocation Policy.

## **4. Fixed Income**

### **4.1 Background**

All fixed income orders are executed via a counterparty bank. The instruments which are bought and sold are debt instruments issued by national governments.

### **4.2 Counterparty Broker Selection**

Record maintains trading relationships with a range of counterparty banks. For each individual client, Record will seek to put in place a list of eligible counterparties, taking into account the fixed income instruments the client wants to execute.

### **4.3 Execution Factors and Process**

Record takes into account the following execution factors when executing any order:

1. Exposure limits
2. Liquidity
3. Cost
4. Price

Record may purchase fixed income securities on behalf of its clients as an alternative to other money market instruments which have direct credit exposure to the counterparty bank. The primary objective is to diversify and reduce credit risk for the client. Record may purchase fixed income securities on behalf of its clients on the primary market or on the secondary market.

When executing an order, Record will first take into account any client specific limits documented in the Investment Guidelines. Given that fixed income instruments are bought as an alternative to other cash instruments, it is also important to make an assessment of market liquidity to be able to sell the instrument back when the liquidity is required by the client.



Subject to any limits and the liquidity of the instrument, separate considerations are then taken into account for orders executed on the primary or secondary market.

Primary market orders involve Record placing a bid for a specific fixed income instrument with a bank. Record monitors any charge levied by each bank for accepting primary market orders, and seeks to place the orders with the bank which charges the lowest fee. Other than the fee, the achieved price will be identical irrespective of which bank the order was placed with, and consistent with the bid made.

For orders executed on the secondary market, price is the primary execution factor. There can be significant differences in the fixed income inventories held by different fixed income banks, which can lead to different banks quoting different prices. Where possible, Record obtains more than one quote for a desired order. Record will execute at the best price from the available counterparties.

The trader may execute any order either by telephone, or electronically via a multibank system.

Fixed income orders may be aggregated; the policy for aggregating transactions is detailed in the separate Order Allocation Policy.

## **5. Client Specific Instructions**

Individual clients may give Record certain execution parameters which we need to follow. This may limit the full spectrum of execution options available to the traders and they will execute under the specific criteria set for each order.

In some instances, clients may instruct Record to carry out currency transactions on their behalf. The traders will follow standard processes in carrying out any such transaction, bearing in mind any specific instructions from the individual client.

## **6. Best Execution Monitoring and Reporting**

Best Execution monitoring is undertaken by the Traders, and is reported to the Risk Management Committee. The best execution monitoring is reviewed by Compliance on an ongoing basis as part of the Compliance Monitoring Plan. Record utilises a wide array of tools to monitor the Best Execution of all of the instruments traded.

The monitoring is split into two main components:

- Comparison of the achieved traded rate vs an independent “market” rate



- Comparison of the achieved traded rate vs the alternative quotes received at the time of the quote

All quotes, whether traded on or not, are stored and allow Record to assess the quality of the pricing from the counterparties. This analysis is fed back to the counterparties themselves. This encourages a more effective dialogue with the counterparties and illustrates where they need to improve in order to continue quoting for trades.

Reporting on best execution required by regulation shall be made publicly available on Record's corporate website.



### **Item 13. Review of accounts**

Operational risk monitoring is embedded within the firm but can be summarized as follows:

- (i) Program parameters are determined by the coding of Record's proprietary trading system (ROMP). Static data is entered using a "four eyes" principle – i.e. two individuals review the data entered to ensure its accuracy.
- (ii) The Front Office Risk Department monitors client accounts daily to ensure they are running in line with expectations and agreed parameters.
- (iii) The Risk Management Committee has oversight of the day to day operational issues including credit risk monitoring, internal exposure limits as well as client specified exposure limits (where applicable).
- (iv) The Compliance department undertakes a risk based monitoring program.
- (v) Internal Audit undertakes the agreed audit plan.
- (vi) External control testing is carried out in accordance with SOC1 Type2, reports of both of which are available on request.



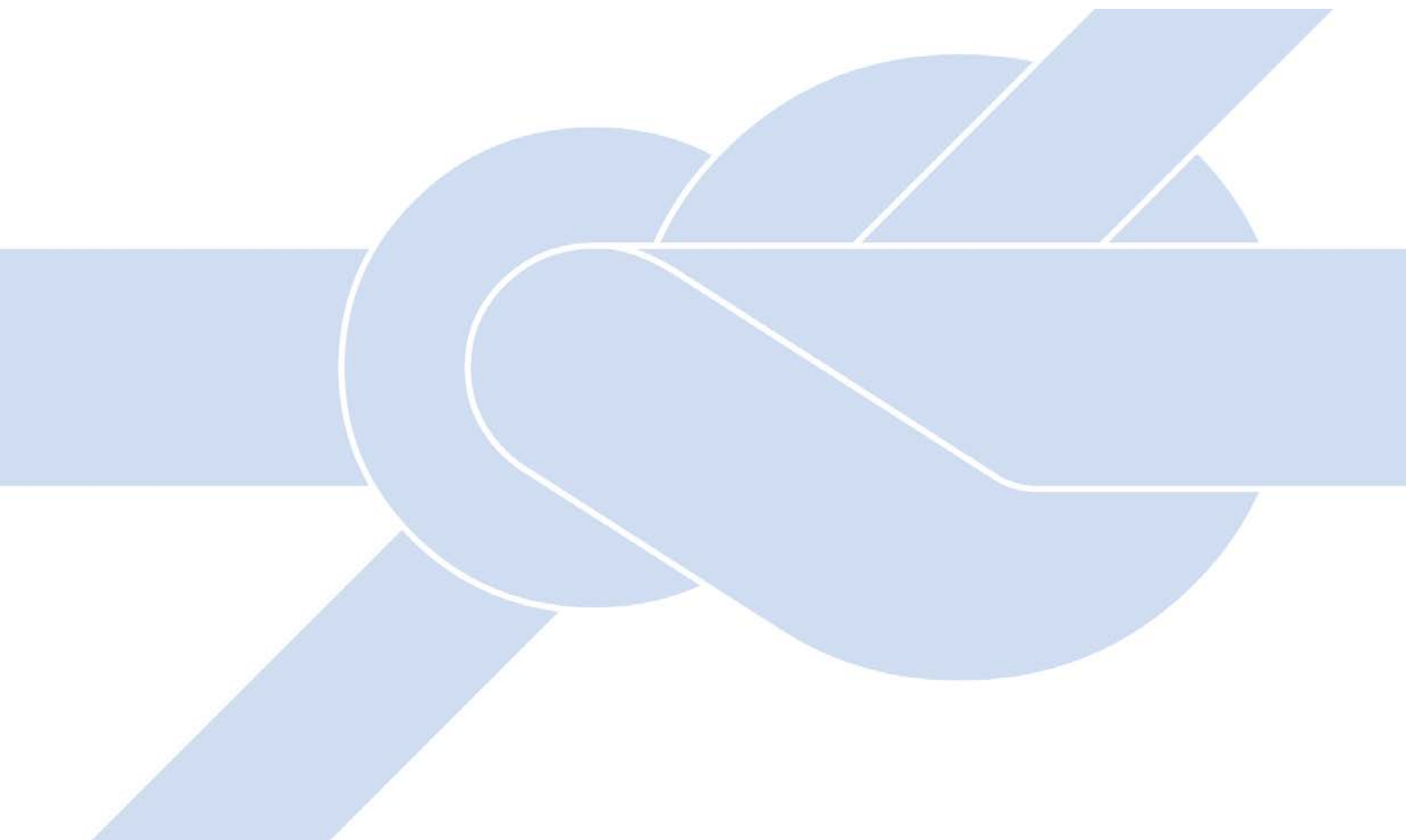
#### **Item 14. Client referrals and other compensation**

Record has never received any soft commission and although Record has third party introducer arrangements in place, there are currently no third party introducer arrangements in place which would have any effect on US accounts. For the avoidance of doubt, Record's current third party introducer arrangements are based solely on non-US clients introduced through specific firms and the nature of the arrangement would be disclosed to any prospective client. Should this change for US clients, then it is Record's policy to provide any client impacted with full disclosure of the details. Record's affiliates and Record Inc. are compensated via a management fee and its employees receive salary and participate in group profit share schemes.



## **Item 15. Custody**

Neither Record nor any of its affiliates, including Record Inc. holds client money or assets and therefore neither has custody of client assets for the purposes of custody rules.





## **Item 16. Investment discretion**

Record typically receives discretionary authority to act as agent for the client to enter into financial contracts as part of the contracted service(s). Details of this authority are always detailed in the Investment Management Agreement and Investment Guidelines agreed with every client.

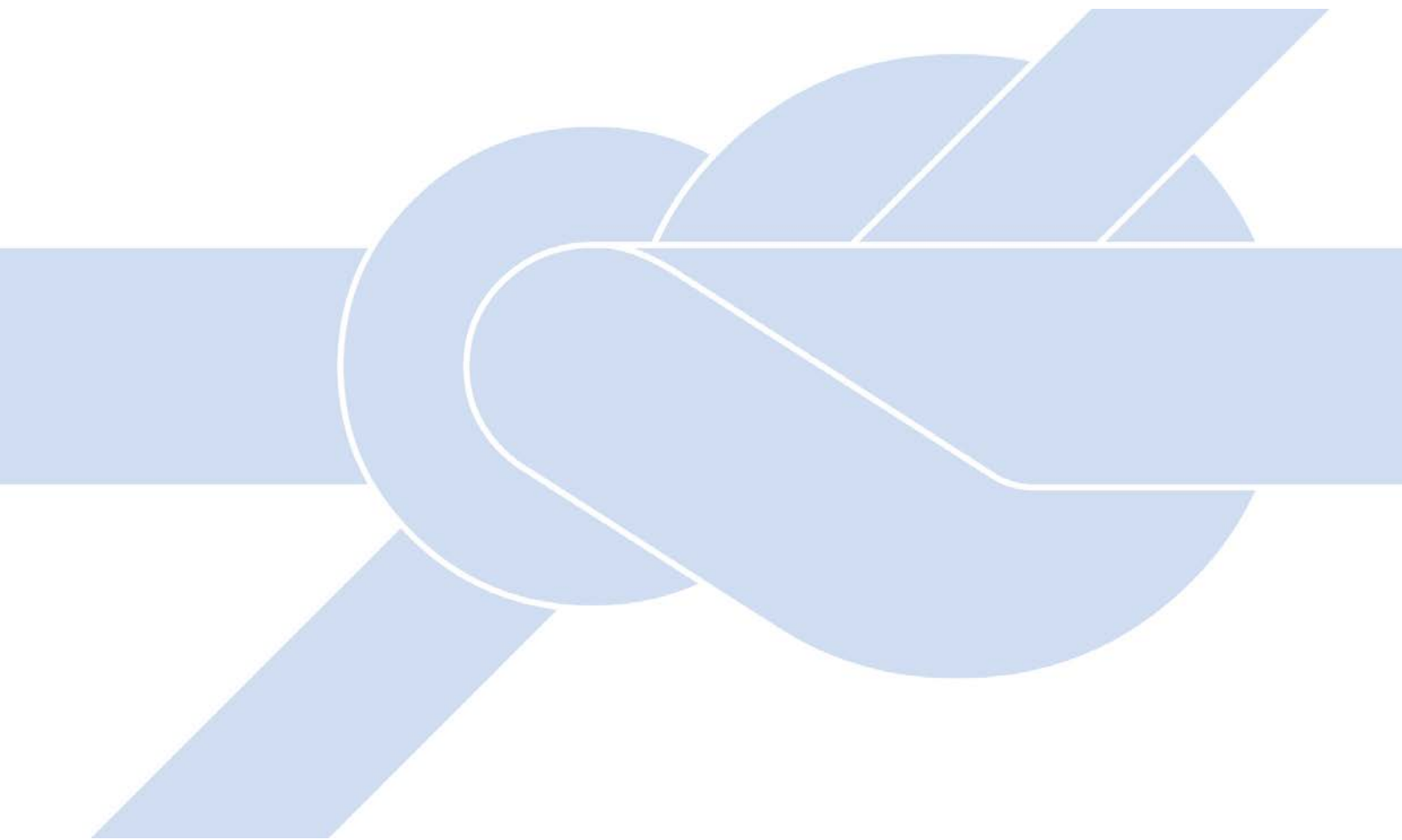
Record is Investment Manager to the Record Umbrella Fund, a Dublin based Qualifying Investor Alternative Investment Fund. The fund is managed in accordance with the investment objectives and restrictions documented in the fund prospectus. Pooled funds are not currently publicly marketed in the US.





### **Item 17. Voting client securities**

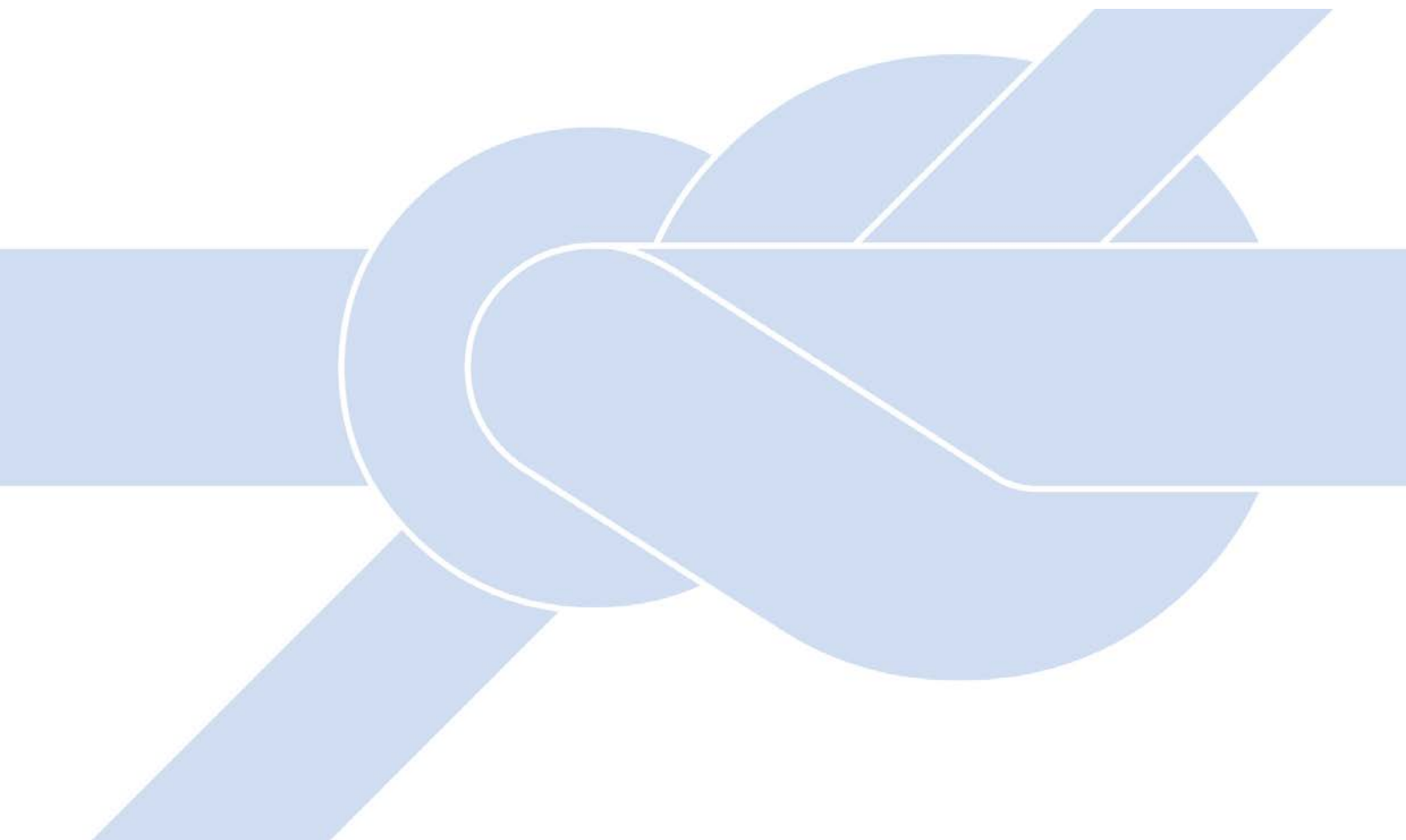
Due to the nature of the services Record provides and the instruments used in providing these services there are no voting rights attached and therefore this is not applicable.





## **Item 18. Financial information**

Not applicable.





## **Item 19. Requirements for state-registered advisers**

Not applicable.

