

KILTEARN PARTNERS LLP
BEST EXECUTION SUMMARY 2017

Kiltearn Partners LLP (“**Kiltearn**”) select brokers, in its sole discretion, to execute all security transactions on behalf of its commingled funds and separate account clients (its “**Clients**”). All Clients have the shared investment objective of achieving long-term growth by investing in a diversified portfolio of global equity securities. Kiltearn is not affiliated with any broker and does not execute security transactions as a principal. As permitted by applicable law and described in more detail below, Kiltearn may from time to time direct a Client to purchase or sell securities directly from or to another Client as part of transactions. In ordinary circumstances, these transactions are also facilitated by brokers.

Under FCA and SEC rules, Kiltearn is obligated to seek “best execution” on all security transactions. Following the introduction of updates to the FCA’s Handbook relating to the Markets in Financial Instruments Directive 2014/65/EU (commonly known as “**MiFID II**”), which occurred on January 3, 2018, Kiltearn adheres to the UK FCA’s higher standard of care in relation to “best execution” on all security transactions for the benefit of Clients. Kiltearn consequently takes all “sufficient” steps, rather than all “reasonable” steps, to obtain “best execution” on all security transactions on behalf of its Clients. In order to fulfil its obligations, Kiltearn used the broker selection process discussed below during 2017.

Approved Broker Relationships

Kiltearn maintains relationships with a number of brokers to execute its Clients’ transactions (each an “**Approved Broker**”). As a general rule, Kiltearn intends to maintain relationships with three (3) to six (6) Approved Brokers at any given time. Kiltearn believes that maintaining a number of broker relationships in this range ensures that Kiltearn: (i) has a suitable choice of brokers when determining how best to meet its obligations of “best execution” in relation to Clients’ transactions; (ii) can build sustainable business relationships with the Approved Brokers, allowing the Approved Brokers to understand the requirements of and add value to the services they provide Kiltearn’s Clients; and (iii) can effectively monitor the performance of each Approved Broker, both in context of the overall relationship and on a transaction-by-transaction basis.

Kiltearn initially selects and continuously monitors each Approved Broker based on factors that it believes assist Kiltearn in its endeavors to meet its obligations to Clients. In relation to each Approved Broker, these factors include, but may not be limited to: (i) the rates of commission it is willing to accept; (ii) the capacity in which it acts or will act; (iii) the coverage it offers; (iv) its quality ranking relative to its peers, inclusive of its relative performance and operational efficiency, in markets of interest (this is based on a review conducted by an independent third (3rd) party); (v) the share of the market it has in markets of interest (this is based on a review conducted by an independent third (3rd) party); (vi) its observable level of integrity and regulatory standing; (vii) its credit-worthiness and financial responsibility; (viii) its error rate, as well as its efficiency in taking corrective action when an error does occur; (ix) specialist knowledge or experience that it has that will likely add value to the quality of the service offered; and (x) any issues it has that may detract from the quality of the service offered. Please note that the factors in the prior sentence are not listed in an order that indicate their relative importance to Kiltearn in its broker selection process.

Notwithstanding the fact that Kiltearn may terminate the relationship with an Approved Broker or replace an Approved Broker at any time (discussed below), Kiltearn will conduct a full review of its Approved Brokers against other options available in the market approximately every twenty-four (24) months.

In the event that Kiltearn believes that there is a significant deterioration in the quality of service offered by an Approved Broker or market confidence in an Approved Broker or there is another issue with an Approved Broker of a similar nature and magnitude, Kiltearn will likely suspend the Approved Broker until it is satisfied suitable action has been taken to correct the issue at hand. Kiltearn may, in its sole discretion, terminate the relationship with an Approved Broker at any time. This will likely occur if Kiltearn believes that: (i) there is an issue with an Approved Broker that is so significant that it is not capable of being corrected; (ii) an issue with an Approved Broker has not been suitably corrected within a reasonable timeframe; (iii) an issue is one of a number of issues that has impacted the quality of services over an unacceptably short period of time; or (iv) Kiltearn is looking to replace an Approved Broker with another broker that it believes will better serve the interests of its Clients.

Approved Brokers in 2017

Throughout 2017, Kiltearn maintained relationships with six (6) Approved Brokers. These six (6) Approved Brokers were: (i) Instinet Europe Limited ("**Instinet**"); (ii) Liquidnet Europe Limited; (iii) Merrill Lynch International ("**Merrill Lynch**"); (iv) Sanford C. Bernstein Limited; (v) Goldman Sachs International; and (vi) Macquarie Capital (Europe) Limited ("**Macquarie**"). All six (6) Approved Brokers are UK resident, offered global coverage and were paid the same rates of commission (which varied dependent on the type of brokerage arrangement being used to execute transactions on behalf of Kiltearn's Clients).

Selection of Approved Brokers for Transactions in 2017

In selecting an Approved Broker for a transaction being executed on behalf of its Clients, Kiltearn sought the best possible results for its Clients. Kiltearn believes that, in ordinary circumstances, the most important factor in achieving the best possible result for Clients is price. To determine the Approved Broker that Kiltearn believed was the most likely to obtain the best price in relation to a pending transaction, Kiltearn reviewed historic price performance achieved on transactions in the security in question by its Approved Brokers. It is worth noting that along with price, Kiltearn also considered other factors that may have impacted the transaction and may have, in some circumstances, believed they were of higher importance than the price, in achieving the best results for Clients. These factors included, but were not limited to: (i) the likelihood of execution; (ii) the timing of execution; (iii) the quality of execution services; (iv) the particular expertise of an Approved Broker with respect to the size or nature of the transaction; (v) the commission rates charged (as noted above, throughout 2017, all the Approved Brokers received the same rates of commission); (vi) the nature and character of the relevant markets on which the transaction was to be executed; (vii) the Approved Broker's relevant execution experience and operational efficiency; and (viii) the cost impact of any market or similar charges that are not universally applied by its Approved Brokers.

Trading Strategy and Brokerage Arrangements in 2017

Kiltearn believes a patient, 'lit' trading strategy is generally the most likely to achieve the best possible result for its Clients, taking into account that Kiltearn is a long-term value investment manager which aims to achieve Clients' investment objectives by causing them to invest in a relatively concentrated portfolio of global securities. As a result, during the period, Kiltearn typically instructed the Approved Brokers to trade portfolio turnover transactions 'over-the-day'. The Approved Brokers ordinarily relied on natural market order flow to facilitate the transactions; although the Approved Brokers may have utilized electronic crossing networks for Kiltearn's Clients' transactions, if and when it was appropriate.

“Principal” Transactions, Dark Pools and Block Trades

In certain circumstances Kiltarn believes the best possible results can be achieved for Clients by acting relatively quickly to take advantage of price movements it considers favorable or, in the case of less liquid securities, by sourcing liquidity via other means than ‘lit’ transactions, such as dark pools or trading blocks. Kiltarn may have, for example, caused Clients to enter a transaction with an Approved Broker where the Approved Broker acted in the capacity of principal or riskless principal to trade larger blocks of securities and taken positions “at risk”.

Program Transactions

Program transactions involve directing an Approved Broker to trade a large number of securities at a specific point in the day (for example, at market open or close) or over the course of part or all of the trading day. Program transactions were typically used to facilitate subscriptions into and redemptions from the commingled funds, inflows into and outflows from client’s separate accounts and rebalance Clients’ portfolios while minimizing liquidity risk to the Client(s) in question.

Transition Account Transactions

Where an investor or prospective investor contributes to one of Kiltarn’s US-based commingled funds via a subscription transition account, securities are purchased for the subscription transition account that are consistent with the relevant fund’s investment objective and that substantially replicate the weighting of the same securities held by the relevant fund, to the extent practicable. Kiltarn looked to do this by balancing the need to replicate the portfolio of the relevant fund in the subscription transition account in a prompt manner, to the extent practicable, to ensure the subscription transition account’s performance emulated the performance of the relevant fund, against the need to ensure the market impact costs associated with purchasing the securities were not unduly high. To achieve this, prior to placing transactions with one or more of its Approved Brokers, Kiltarn analysed the projected market impact of trading and caused the subscription transition account to participate in the market at a level that Kiltarn believed was likely to result in the fund’s portfolio being substantially replicated in the subscription transition account in a relatively prompt manner, with a relatively low level of associated market impact costs for the subscription transition account.

Internal Cross Transactions

Subject to ERISA or other applicable laws, to reduce transaction costs, rebalance Clients’ investment portfolios or for other reasons, Kiltarn may cause a Client account to enter into cross transactions directly with other Client accounts for which Kiltarn also acts as a discretionary investment manager. This normally occurred during the period where inflows into one Client account coincided with outflows from other Client accounts for which Kiltarn also acted as a discretionary investment manager. In the event that Kiltarn caused one Client to purchase securities from or sell securities to another Client, Kiltarn used its best efforts to mitigate the potential conflicts of interest by causing such transaction to occur at the then prevailing market price of the applicable securities and by considering the interests of both Clients that were parties to the transaction. Kiltarn used brokers to facilitate the cross transactions. Kiltarn provided commingled fund investors with a summary of crossing activities on a quarterly basis on written request.

Monitoring the Approved Brokers' Adherence to Kiltearn's Instructions in 2017

Kiltearn's individual trade instructions to Approved Brokers were captured in the Markit's transaction cost analysis ("TCA") database. Markit is an independent provider of equity security trading analysis. This allowed Kiltearn to periodically review the trading strategy employed by the Approved Brokers to confirm they both understood and acted in accordance with Kiltearn's trade instructions.

Monitoring Active Orders in 2017

Kiltearn reviewed its selection of Approved Brokers for all active orders regularly during the period. If, at the time of a review, an Approved Broker's price performance achieved on a transaction to date was determined by Kiltearn not to be sufficient, relative to their peers, Kiltearn replaced the Approved Broker with an Approved Broker which Kiltearn determined was the most likely to achieve the best possible result for its Clients in relation to the transaction.

Monitoring Approved Brokers' Daily Performance in 2017

Kiltearn monitored its Approved Brokers and the execution services the Approved Brokers provided on an ongoing basis to ensure that their performance was consistent with the duty of "best execution". Kiltearn received TCA from Markit on a daily basis. The TCA included a number of performance metrics for all securities traded during the relevant trading day. The TCA was reviewed by Kiltearn and where it believed that the price achieved by an Approved Broker in relation to a transaction or number of transactions was outside an acceptable level of tolerance, the issue was raised with the Approved Broker. In turn, the Approved Broker was required to provide a satisfactory explanation for the divergence from tolerance and where no explanation that Kiltearn deemed satisfactory was offered, the Approved Broker was required to take corrective action in relation to the transaction(s) in question. As noted above, in the event that Kiltearn deemed that the issue was of a significant magnitude, Kiltearn will have likely suspended the Approved Broker until it was satisfied suitable action had been taken to correct the issue at hand.

Long-term Monitoring of Approved Broker in 2017

In addition to the TCA received from Markit on a daily basis, Kiltearn also reviewed trade performance data covering extended periods of time. Using trade performance data covering extended periods of time enabled Kiltearn to examine whether there were any trends in long-term performance that were masked when looking at performance at a short-term, granular level. The following periodic long-term analysis occurred: (i) monthly analysis of all completed transactions in the prior month against benchmarks Kiltearn believed were appropriate, to establish whether the price achieved by the Approved Broker in relation to a transaction was within an acceptable level of tolerance; (ii) analysis of year-to-date Approved Broker transaction issues to establish whether there was any trends; (iii) analysis of year-to-date Approved Broker usage; (iv) analysis of a quarterly report provided by Markit which examined the Approved Brokers' performance and volatility of their performance against the benchmarks Kiltearn believed were appropriate, to establish if there were any concerns with the performance of any of the Approved Brokers; and (v) quarterly venue analysis to establish if, over an extended period, there were any trends Kiltearn deemed concerning with any of the venues used by the Approved Brokers. As noted above, in the event that Kiltearn deemed that an issue of a significant magnitude was identified as part of any analysis listed above, Kiltearn raised the issue with the relevant Approved Broker and may have, where it deemed appropriate, suspended the Approved Broker, terminated the relationship with the Approved Broker or replaced the Approved Broker, in its sole discretion.

Summary of Best Execution Achieved in 2017

Based on Kiltearn's ongoing monitoring and analysis, Kiltearn determined that, on balance, Merrill Lynch achieved the best quality of execution on behalf of Clients throughout 2017, relative to the other Approved Brokers and the wider peer universe. As a result, Merrill Lynch received the largest share of Kiltearn's orders throughout 2017.

Kiltearn longest standing relationship with an Approved Broker is its relationship with Instinet. Instinet's share of Kiltearn's orders fell below previous levels throughout 2016 and in early 2017 as Kiltearn allocated orders to its increased list of Approved Brokers via its performance based selection process. Instinet's share of Kiltearn's orders increased – albeit, not back to previous levels – due to the quality of execution achieved by Instinet on behalf of Clients throughout 2017, relative to the other Approved Brokers and the wider peer universe.

Macquarie was the Approved Broker that was allocated the smallest share of Kiltearn's orders during 2017 due to performance and a lower market share in the securities Kiltearn sought to trade on behalf of Clients, relative to the other Approved Brokers and the wider peer universe. Kiltearn terminated its relationship with Macquarie in early 2018.

Approved Broker selection was significantly influenced by the regions in which Kiltearn traded on behalf of Clients throughout 2017 and the market capitalisation of the issuers, the securities of which Kiltearn traded on behalf of Clients during the period. This will continue to be the case in 2018 and beyond.

No Commission Recapture or Directed Brokerage Arrangements in 2017

Kiltearn did not participate in commission recapture or directed brokerage arrangements and investors in the commingled funds and separate account clients were not permitted to direct Kiltearn to use or allocate commissions from any broker. Kiltearn did not share, directly or indirectly, in any of the revenues generated by its Clients' brokerage or over-the-counter transactions.

Commissions in 2017

As noted above, Kiltearn's Approved Brokers all received the same rates of commission; however, the rates of commission varied depending on the type of brokerage arrangement being used to execute transactions on behalf of Kiltearn's Clients.

Soft Dollars in 2017

Throughout 2017, Kiltearn had commission sharing arrangements ("**CSAs**") in place to collect soft dollar commissions to remunerate third (3rd) parties that provide research and research-related services to Kiltearn (referred to as "**Soft Dollar Commissions**"). After being collected alongside commissions paid to its Approved Brokers for the execution of transactions, the Soft Dollar Commissions were swept to, and aggregated in, a ring-fenced CSA aggregation account ("**CSAAA**") maintained by one of Kiltearn's Approved Brokers. On a bi-annual basis, Kiltearn instructed the Approved Broker that maintained the CSAAA to make payments from the CSAAA to the research and research-related service providers for services provided to Kiltearn in the previous six (6) months.

Beginning January 3, 2018, Kiltarn does not cause Clients to pay “soft dollar” commissions and Kiltarn does not receive “soft dollar” benefits from the Approved Brokers. The services that were previously received in exchange for Soft Dollar Commissions, third (3rd) party research and research-related services, are paid for by Kiltarn out of its own financial resources.