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Citigroup Global Markets Japan Inc. (CGMJ)

Best Execution Policy

This Best Execution Policy set forth in accordance with Article 40-2-1 of the Financial Instruments and Exchange Law prescribes the policy and methods to ensure the execution of orders received from clients achieves the most favorable outcome.

When accepting an order from a client for securities listed on a financial instruments exchange in Japan, and if there is no overall agreement between the client and CGMJ on instructions regarding the execution method, nor any specific client instruction regarding the execution method on an individual trade basis, CGMJ shall endeavor to execute that order in accordance with the following policy.

For the customers who request the issuance of the best execution report explaining that the order was executed in accordance with our best execution policy, due to the nature of the report containing a large amount of transaction data, will be receiving such by email.

1. Securities covered by the policy

“Listed Securities” as defined in Article 16-6 of the Enforcement Order of the Financial Instruments and Exchange Law, such as stocks, bonds with stock acquisition rights (convertible bonds), ETFs (beneficiary certificates in investment trusts linked to a stock index), and REITs (investment certificates in real estate investment trusts) that are listed on a financial instruments exchange in Japan.

The US stock names listed at the Tokyo Stock Exchange and also the “Handled Securities(*Toriatsukai Yuka-shoken*)” as defined in Article 67-18-4 of the Financial Instruments and Exchange Law, such as Phoenix stock and convertible bonds are in principal out of scope of the covered products by CGMJ therefore this policy does not apply.

2. Definitions

The terminology used in this policy are defined as below.

- Proprietary Trading System
Proprietary Trading System (PTS) prescribed in Article 26-2-2, paragraph (7) of the Order for Enforcement of the Financial Instrument and Exchange Law CGMJ has opted to support the following PTS venue:
 - Japannext PTS managed by Japannext Co.,Ltd.

- Smart Order Routing

Smart Order Routing (SOR) is a service that CGMJ offers to automatically route an order to the Financial Instruments Exchange or the Proprietary Trading Systems where the Best Execution could be expected. Orders instructed to be executed by the SOR are called “SOR orders” and the system used to manage SOR orders is called the “SOR system”.

- Venues applicable for SOR

CGMJ has selected the Tokyo Stock Exchange and Japannext as applicable venues for the SOR.

- SOR eligible names

CGMJ specifies that “Listed Securities” on the Tokyo Stock Exchange are eligible to be placed as SOR orders. Securities which are listed solely on the Nagoya Stock Exchange, or on other Financial Instrument Exchanges where CGMJ is not a member, are not eligible for the CGMJ SOR. Additionally, securities which are not tradable on the PTS venue are also not eligible for the CGMJ SOR.

- Dark pool

The “Intra-company transaction system” prescribed in Article 70-2, paragraph (7) of the Cabinet Office Ordinance on Financial Instruments Business. CGMJ operates a dark pool called “CitiMatch”. Citi Match orders are matched at a price within best bid and offer in the Tokyo Stock Exchange (“TSE”) and executed at off-auction venue in TSE. For SOR enabled orders, only order size where better quotes available in CitiMatch compare to PTS venue are considered as CitiMatch eligible order.

- Latency Arbitrage

A trading strategy where a market participant leverages advantages in faster market data/connectivity to trade ahead of another market participant and benefit from such.

3. Method of executing orders to achieve the most favorable outcome

Based upon client preference, CGMJ can utilize CitiMatch and SOR to help achieve Best Execution.

(1) Methodology to determine price on CitiMatch

Refer to Section 2. Definitions.

(2) SOR Execution methodology

When receiving an SOR eligible order from the client, CGMJ will promptly route it to the SOR venue for which the execution is expected to be at the best price, as evaluated by the SOR system. When the SOR system identifies that an order could be executed at the same price on multiple venues, the priority of the placement of the order would be Tokyo Stock Exchange, followed by Japannext. The venue priority is based on analysis done by CGMJ and uses past execution performance and is subject to periodical review.

This prioritization of the venue can be customized based upon clients request.

(3) Preventative measures for Latency Arbitrage

CGMJ applies simultaneous routing across the venues to minimize the possibility for Latency Arbitrage.

(4) Non-SOR securities and the execution

If an order to buy or sell on a non-SOR eligible security is received from a client, or the client requests not to use the SOR, unless there is an overall agreement between the client and CGMJ on instructions regarding the execution method or any specific client instruction regarding the execution method on an individual trade basis, CGMJ shall execute the order as an agency order in a market in session on a financial instruments exchange. For the securities listed both on Tokyo Stock Exchange and Nagoya Stock Exchange, CGMJ shall route the orders to the exchange that Bloomberg mark as primary exchange. In this case, for orders received from a client outside prior to the start of trading hours for the financial instruments exchange, CGMJ will execute the order once the financial instruments exchange reopens.

(5) Reasons for selecting the execution method

In regard to Listed Securities, the majority of the investors' interest is concentrated on financial instruments exchanges, which are better in terms of liquidity, possibility of execution and execution speed. Therefore, executing orders here is considered to be the most rational choice for clients.

Moreover, where a security is listed on multiple exchanges, executing the order on the Main Market for the applicable security is considered to be the most rational choice for clients.

(6) Reason for using CitiMatch

Where clients would like to reduce market impact related to trading on financial instruments exchanges, they can also utilize Citi Match. Also, CGMJ considers it is possible to quickly execute orders at a price within the best bid and offer in TSE by providing internal liquidity.

4. Others

(1) Notwithstanding the above, CGMJ shall execute the following types of transaction based on the respective methods below.

- ① A transaction where an overall agreement is in place between the client and CGMJ regarding the method of execution, or where a client has separately specified the method of execution (for example, by requesting that CGMJ act as a direct counterparty, execute on a specific exchange, or execute within a specific timeframe)

Execution shall be based on overall agreement or the separate execution method as instructed.

- ② Execution under a Discretionary Investment Contract, etc.

CGMJ shall execute using a method of choice permitted within the discretion specified by the client in the contract.

- ③ Odd-lot shares or shares less than one trading unit

CGMJ shall become the direct counterparty in the execution.

(2) There may be cases, such as a system failure, where CGMJ may have to execute using a method other than specified in this Best Execution Policy. In such cases, CGMJ shall endeavor to execute under the best terms possible.

(3) In cases of emergency such as system failure at an exchange, PTS etc., CGMJ may have to execute using a method other than specified in this Best Execution Policy . In such cases, CGMJ shall endeavor to execute under the best terms possible.

(4) Dark pool availability for Individual customers.
Not applicable.

The duty of best execution not only relates to price, but also involves the consideration of other factors including cost, speed and certainty of execution. Therefore, if a trade appears not to have been executed at the best possible price or not to have been executed at the main market, this in itself does not necessarily constitute a violation of the duty of best execution.

End