



## OUR BEST EXECUTION POLICY

### Introduction

As a participant of ASX and Chi-X, under ASIC Market Integrity Rule 3.1.1 (Competition in Exchange Markets) 2011, State One Stockbroking Ltd (“SOSL”) has an obligation to deal on the various available market venues in a manner designed to ensure the best outcome for you as our client. This Policy document details how State One proposes to meet our Best Execution obligation.

Please note that the required implementation date for the Policy is 31<sup>st</sup> March 2013. In the meantime, State One will have a transitional approach to the Policy roll out. During this interim period some State One clients may not be able to enjoy the full benefits of multi market trading.

This Policy applies where we execute orders to buy or sell Equity Market Products (“orders”) on behalf of clients. Equity Market Products include: Shares; Interests in managed investment schemes (including exchange-traded funds); Rights to acquire shares or interests in managed investment schemes under a rights issue; and CHESS Depository Interests (“CDIs”) admitted to quotation on various exchanges.

For Retail clients, Best Execution will mean best total consideration, after brokerage and GST. For Wholesale clients, it will include these factors plus other possible factors including speed, market liquidity, likelihood of complete execution, impact on market and any other consideration which State One deems relevant.

For both Retail and Wholesale clients, State One will select a venue or venues which we deem best satisfies our Best Execution obligation.

This Policy should be read in conjunction with “State One Dealing Policies – Order Execution and Allocation.”

### Australian Equity Trading Venues in the Multi-Market Environment

The recent introduction of the multi-market environment is more complicated than just another market operator, as each market operator now offers an increased number of trading venues.

Because each trading venue offers its own advantages, the focus on this Policy is to identify the respective advantages offered, and to take the best advantage of them on your behalf.

The various venues which State One will be considering for each order it transacts will include the Order Books of:

- |                      |                       |  |
|----------------------|-----------------------|--|
| • ASX                | TradeMatch            | the longstanding ASX “lit” * trading venue   |
|                      | CentrePoint           | a “dark” ** venue operating at mid-tick prices – i.e. mid-way between standard tick buy & sell prices. |
|                      | PureMatch             | targeting high frequency traders (lit venue)   |
| • Chi-X Australia    | Chi-X                 | Chi-X’s new lit venue  |
|                      | Chi-X Mid-Point       | a dark venue similar to ASX CentrePoint  |
| • State One Internal | SOSL Client orders    | Existing client orders resting in a lit market   |
|                      | SOSL Principal orders | Existing SOSL Principal orders resting in a lit market   |

\* Lit means pre-trade transparent. \*\* Dark means a pool of liquidity which is not-pre-trade transparent, involving system matching of orders away from the lit market.

## Order Execution

In the new multi-market environment, your individual orders will often be transacted on more than one of the venues. Orders are classified as active or passive – the former transact immediately they are offered to the market. A passive order (often the balance of an order which has been only part executed as an active order) will not transact, but will rest in the market which we have chosen as the preferred venue for such orders. (It will be the venue which in our judgement consistently delivers the best outcome for passive client orders.)

When an order is transmitted on your behalf, we will first assess the various available venues and determine which one will, we believe, provides the Best Execution for that order. Which venue is chosen by us will depend upon a number of factors, including price, market availability and speed and certainty of execution.

Order execution decisions, will typically follow the following steps, which we reserve the right to amend at any time:

- we will first look to transact with you in one of the State One internal venues (i.e. with our clients or ourselves as Principal), if this can be done without prejudicing you;
- we will then look to external markets;
- when the order is an active order, in seeking the best market for your trade we will look at factors such as price and prevailing market depth;
- when the order is a passive order, we will make a choice as to the best venue after taking into consideration factors such as the level of activity in the stock and whether the venue will purge orders at the end of each trading day. The current expectation is that the ASX Trade Match venue will be where we rest all passive orders.

The above steps are configured into an element of our computer software, the IRESS Best Market Router.

**When a venue is unavailable** (due to market outage or differing trading hours) we may choose to rest orders in alternate venues, subject to our view that in doing so we will still meet our Best Execution obligation.

**Venue Differences in Opening and Closing Procedures** – State One will review the quality of execution offered within the opening and closing phases of the various venues, and will seek to direct orders to those venues which in our judgement consistently deliver the best outcome.

**Where State One matches orders on both sides** of a transaction (either with our clients or ourselves) it will do so whilst ensuring it provides each client with the best outcome in terms of price, volume and timing. We believe these venues offer the most cost effective and lowest risk order execution.

**Order Vetting** - As a client you should understand that there are obligations placed on you when you deal in financial markets. These include the obligation not to endeavour to manipulate the market through (a) the placement of too many orders; (b) placing orders where there is not a genuine intent to deal; (c) short selling; (d) dealing where there is no change of beneficial owner; or (e) trading on the basis of “inside” information. To minimise the risk of such transgressions, State One uses filters to vet all orders before they are placed in market. You should understand that your orders may be permitted to pass straight through to the market, they may be rejected outright, or may be referred to one of our Designated Trading Representatives for manual review before going to market or being rejected.

**Orders Received Outside of Trading Hours** – orders received outside of normal trading hours will be held off market by State One until relevant venues are open or at least until the venue which best in our judgement consistently delivers the best outcome is open.

**Price Improvement after Order Transmittal** – where a price improvement occurs in one venue after State One has transmitted a client order to another venue, State One will not be obliged to re-transmit that order.

**Can You Request to Opt-Out of our Best Execution Procedures?** – Clients may in certain circumstances request to opt out of our Best Execution procedures. Note however that if you seek to opt-out, you may not be achieving the best outcome and it may affect our charges, as it will limit our ability to deliver you with the highly automated trading and clearing activities which enable us to offer you very competitively priced services. Where your alternative instructions are inconsistent with what we believe to be the Best Execution Policy, we will only accept such instructions on an order by order basis. At all times we reserve the right not to accept orders which are outside our Best Execution procedures. Should you give us different instructions as to how you wish us to execute your orders, which we accept, we will take reasonable steps to follow your instructions, provided they do not conflict with the requirements of the Corporations Act, ASIC's Market Integrity Rules Law and other relevant controls. Wholesale clients may provide us with specific standing instructions in respect of their dealings, which can include instructions to opt out of our Best-Execution Policy.

**Your Contract Notes** - The contract notes you receive in respect of dealings on multiple markets will disclose which venues you have transacted on and which prices you received on each venue. State One's brokerage will be disclosed as a single amount to cover all elements of the completed trades.

**Potential Conflicts of Interest – refer to State One Capital Group's Financial Services Guides**

There are a number of potential conflicts that can arise between the interests of State One and of our clients. It is important that we and our clients both understand them. Some areas of potential conflict include;

- Client orders should be handled promptly, fairly and in turn;
- Client Priority – State One Principal and staff orders should give priority to the orders of clients whom are acting on State One's advice;
- The interests of State One itself should not be placed ahead of those of the client;
- The interests of State One staff should not be placed ahead of those of the client;
- Not all markets impose the same charges on us, as a market participant. Clearly there will be occasions when SOSL will seek to take advantage of lower charges, but we will not do so in instances which will prejudice you.

**Client Queries about Best Execution**

Should you consider that State One may not have complied with our Best Execution Obligation, you are welcome to submit in writing a request for us to substantiate how we have in fact done so. In the first instance the query should be referred to your advisor or the head of the State One group with which you are dealing. State One undertakes to respond to such reasonable requests within five business days.

**Future Review**

Financial markets are subject to continual variation. As the prevailing supervisory landscape, activity levels and the functionality of each venue change, State One will review our relevant policies and amend them as considered appropriate to maintain our obligation to provide our clients with the best. The most recent version of State One's Best Execution Policy is to be found on [www.stateone.com.au](http://www.stateone.com.au)

Should you have any queries about our Best Execution Policies and Procedures, please feel welcome to contact our Compliance Manager via email on [compliance@stateone.com.au](mailto:compliance@stateone.com.au)

This version of our Best Execution Policy is dated 21<sup>st</sup> October 2012.