



# Counterparty Selection, Monitoring and Approval Guidelines

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## INTRODUCTION

The following document outlines the Counterparty Selection, Monitoring and Approval Guidelines used by the New Brunswick Investment Management Corporation (NBIMC) to ensure the best interests of clients are met when trading securities within financial markets. The process by which NBIMC chooses counterparties is a part of our effort to ensure Best Execution on behalf of our clients for all transactions.

These guidelines include the criteria and process associated with the selection and approval of broker/dealers. They have been formulated with the input of all major investment areas and approved by the NBIMC Trading Management Oversight Committee (TMOC).

The guidelines are intended to provide direction on how NBIMC works to meet the best interests of clients by outlining a formalized process to ensure that the counterparties selected are capable of providing Best Execution. This is done by transparently outlining:

- The criteria used for the selection of brokers
- The process by which selection criteria are evaluated
- The guidelines in regards to interacting with a non-approved broker

NBIMC is committed to enhancing shareholder value by conducting the proper due diligence on all broker/dealers through a clear, formalized process on a regular basis.

## **OBJECTIVE AND SCOPE**

These guidelines are specific to NBIMC's selection, monitoring and approval of broker/dealers for the majority of investment securities (equity shares, bonds, and derivatives). Regarding the formal trading process and Best Execution on behalf of clients, please refer to NBIMC's Trade Management and Best Execution Guidelines.

## **TRADE MANAGEMENT OVERSIGHT COMMITTEE**

NBIMC has established a Trade Management Oversight Committee (TMOC), which is responsible for regularly evaluating and when appropriate, making recommendations to improve trade management policies and procedures, along with the broker selection process to senior management. In its evaluation, the committee may consider such factors as:

- Available alternative trading systems and technology developments
- Commission allocations and trends
- Cost constraints
- Changes in the structure of markets
- Administrative Implications
- Approval of new and evaluation of existing trading counterparties

The TMOC committee includes representatives from senior management and each investment area within NBIMC. TMOC holds meetings on at least a bi-annual basis.

## **APPROVED BROKER LIST**

Based on the criteria set out below, NBIMC has developed a broker approval list. Each approved broker has met the prescribed requirements as an appropriate counterparty, and that they are capable of adding value. These requirements include:

- The broker's reputation, experience and financial stability
- The broker's standing with pertinent regulatory bodies and associations
- A review of any recent or pending regulatory actions

The list is administered by the Trading Management Oversight Committee (TMOC) and both the list and broker approval criteria are reviewed on an annual basis.

Each NBIMC investment area develops a preferential "tier list", derived from the Approved Broker List. Factors used for tier lists are specific to the requirements of the type of security.

## **BROKER SELECTION CRITERIA**

When selecting brokers for trading from those on NBIMC's Approved Broker List, many criteria are considered, including (but not limited to) the following:

- The integrity, ethics and trustworthiness of the broker regarding any relations and agreements with NBIMC and its clients
- The broker's capacity and willingness to commit trading capital and find liquidity to complete trades
- The broker's ability to generate investment ideas that consistently lead to value creation for NBIMC
- The speed and quality of trading execution to minimize market price impact and maximize value for NBIMC clients
- The broker's capability to provide services at the lowest possible cost to NBIMC
- Availability and direct access to broker research analysts and strategists
- The ability for the broker to provide and facilitate access to material investment events and meetings with investee management personnel
- Timely information regarding companies of interest
- Sufficient, competent broker personnel and support staff
- The brokers electronic and program trading capabilities and range of associated products
- The quality, depth and effectiveness of the broker's investment research
- The quality and effectiveness of trading ideas and their evaluation ex post
- Trading competence on a domestic and international basis, trade expertise, flexibility and execution within the markets
- Ability to provide sound market intelligence, information flow and trade discreteness
- Access to and ability to participate in Initial Public Offerings (IPOs), Bought Deals and Company Secondary offerings
- Timely acknowledgement and correction of trade errors
- The efficient clearance and settlement of trades
- The broker's overall ability to provide Best Execution for NBIMC clients

## **BROKER EVALUATION PROCESS**

Each NBIMC investment area, in coordination with the team Vice-President, the Chief Investment Officer (CIO), the Chief Financial Officer (CFO) and the TMOC, develops a "top tier list" of preferential brokers, derived from the Approved Broker List and evaluated based on the criteria listed above. The process by which top tier lists are determined is different for each individual investment group.

**NON-APPROVED BROKER**

Should a broker not be included on the Approved Broker List, under normal circumstances transactions with that counterparty will not take place. A documented and approved exception may occur should it be determined by the responsible team Vice-President and CIO that execution with a non-approved broker will result in the best interests of NBIMC clients. In this case, the non-approved broker will be evaluated for inclusion on the Approved Broker List at the next scheduled TMOC meeting.