

Best Execution and Order Handling Policy



CONTROL SHEET

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1. SCOPE

The Best Execution and Order Handling Policy ("**this Policy**", "**the Policy**") applies to all XP Inc. ("**the Group**") employees and contractors (together "**Staff**") involved in the provision of investment services and activities of XP Investments UK LLP ("**XP**", "**the Firm**"). Staff means any of the following:

- i. a director, partner or equivalent, manager or tied agent of the Group;
- ii. a director, partner or equivalent, or manager of any tied agent of the Group;
- iii. an employee of the Group or of a tied agent of the Group, as well as any other natural person whose services are placed at the disposal and under the control of the Firm and who is involved in the provision by the Firm of investment services and activities;
- iv. a natural person who is directly involved in the provision of services to the Firm or to its tied agent under an outsourcing arrangement for the purpose of the provision by the Firm of investment services and activities,

based in the United Kingdom ("**the UK**") and overseas. This Policy will apply to the UK applicable law and regulations. When this Policy is applied outside of the UK it will be supplemented by local documentation as required. Where local requirements are less onerous than those of the UK, the Policy set out herein must be followed unless otherwise approved by the Compliance Officer of the Firm.

2. INTRODUCTION

When XP UK accepts an order to execute a transaction for a professional client, the Firm will only owe a duty of Best Execution if the Firm has a contractual or agency duty relating to that order, or if XP UK has otherwise expressly agreed to provide Best Execution. Best Execution does not apply to any XP UK clients categorised as an Eligible Counterparty, and XP UK is not currently authorised to provide investment services to any Retail Clients.

Further, where XP UK gives quotes or negotiates a price with a Professional Client upon request (such as dealing on a Request For Quote basis, irrespective of whether the Firm has initiated the transaction) XP UK will not be receiving an order as part of a service where Best Execution applies.

This Policy sets forth the framework to be followed when XP UK accepts an order under Best Execution, and sets a minimum standard which must be observed by Staff engaged in the handling of client orders. If any member of Staff becomes aware of an order handling issue involving the Firm, or any employee or contractor working on behalf of the Firm, that employee must escalate and report such issue in accordance with this Policy.

3. PURPOSE

This Policy sets out XP's approach to order handling and execution in accordance with the Firm's regulatory obligations in the United Kingdom. When a professional client places orders with XP, they consent to their orders being executed and/or transmitted in the manner described in this Policy.

The aim of the Policy is to:

- explain the steps we take to execute orders, or receive and transmit orders for execution, including by transmitting such orders to our affiliates or to third party brokers, which may be inside or outside the United Kingdom ("UK"); and
- when we select a specific venue where an order will be executed, explain the steps the firm has taken in selecting such venue.

The Policy also explains the circumstances when we have a regulatory obligation to take all sufficient steps to obtain the best possible result for our clients ("best execution") and confirms the instruments which are within scope of the Policy (i.e. those instruments that are within scope of the UK Markets in Financial Instruments Directive ("UK MiFID"), as stated in Annex I ("Financial Instruments").

In all cases, whether or not the firm has a regulatory obligation to provide best execution, XP must always act honestly, fairly and professionally in accordance with the best interest of clients when providing brokerage services, and in accordance with the best interests of Eligible Counterparties when carrying out their business.

4. MATCHED PRINCIPAL TRADING

XP is subject to matched principal restrictions when dealing in investments as principal to execute client orders against proprietary capital (or the proprietary capital of any of our affiliates). These restrictions are described on Annex II ("**Matched Principal Exemption Conditions**").

Matched principal trading involves transactions where XP interposes itself between the buyer and seller to the transaction in such a way that it is never exposed to market risk throughout the execution of the transaction.

5. EXECUTION SERVICES

XP may execute transactions in relation to Financial Instruments (see Annex I) by the following means:

1. As an agent – where the client appoints and authorises XP as its agent, to provide intermediation and execution services in relation to FX transactions through a FX Trading Agreement;
2. As matched principal – where all derivatives transactions are intended to be centrally cleared and are governed by a Cleared Derivatives Execution Agreement ("**CDEA**") prior to being accepted by the Designated Clearing Organization ("DCO").

6. SPECIFIC INSTRUCTIONS

Where there is a specific instruction from the client, XP will execute or transmit the order in accordance with that instruction. In these circumstances, the specific instruction may prevent XP from taking some and/or all of the steps described in this Policy, which we have designed to provide best execution and/or to act in our clients' best interests.

Where we are provided with specific instructions, our execution in accordance with those instructions will be deemed best execution (to the extent best execution is applicable). To the extent specific instructions only

relate to some of the aspects of an order, we will comply with this Policy in respect of the other aspects. For example, if there is a specific instruction to execute an order at a particular time, we will select a venue for execution in accordance with this Policy (and comply with all other aspects of this Policy), except when determining the time at which the order is executed.

7. BEST EXECUTION

Within scope of best execution

XP has a regulatory obligation to provide best execution when executing or transmitting orders for execution. This means that XP will aim to provide best execution, considering the nature of a particular order, the prices available on the market and a reasonable assessment of the relevant execution factors (which are explained in detail below).

Best execution is owed to clients only (which, in respect of XP, will always be Professional Clients) and not to Eligible Counterparties (see Annex III).

Best execution is only owed where the relevant instrument is classified as a Financial Instrument, as listed in Annex I of this Policy.

When acting as an agent to a transaction or in a matched principal capacity, XP must provide best execution to those Professional Clients who place orders directly with us via voice or electronic means of communication (such as Bloomberg chats). XP must also provide best execution to Professional Clients in the following circumstances:

- i. when executing orders, or transmitting orders for execution;
- ii. when executing the order on behalf of the client using a third-party broker; and
- iii. when the client relies on XP to “buy at best”.

XP owes the obligation of providing the best possible result when the client is placing “legitimate reliance” on XP to protect its best interests in relation to pricing and other elements of an interest or order placed with us. XP will take the following four factors into consideration in assessing whether the client is placing legitimate reliance and expecting best execution:

- 1. which party initiated the transaction (e.g. whether the client requested a quote);
- 2. questions of market practice and the existence of a convention to “shop around”;
- 3. the relative levels of price transparency in the market; and
- 4. the information provided by XP and any agreement that XP has with the client.

Not subject to best execution

XP is only obligated to provide best execution where it is executing a transaction, receiving and transmitting an order for execution. XP is not obligated to provide best execution when the instrument is not a Financial

Instrument (as specified in UK MiFID/Annex I), or when arranging the order in a name give-up scenario.

XP is deemed to have provided best execution where specific instructions have been provided by the client, to the extent the execution of the order is covered by those specific instructions (Section 5 of this Policy).

XP is not obligated to provide best execution when the client is classified as an Eligible Counterparty in accordance with the FCA Rules (see Annex III); nonetheless, when XP provides brokerage services to Eligible Counterparties, XP must act honestly, fairly and professionally. XP must communicate in a way that is fair, clear and not misleading, taking into account the nature of the Eligible Counterparty and of its business.

8. EXECUTION FACTORS

In the absence of specific instructions from the client, XP will exercise its own discretion in determining the factors that XP needs to take into account for the purpose of providing the client with the best possible result. XP will take the following factors into account to seek to ensure the best possible result (“**execution factors**”):

- price;
- size of the order;
- nature of the order;
- speed;
- cost;
- likelihood of timely execution and settlement; and
- any other consideration relevant to the efficient execution of the order.

Execution factors may be weighted differently due to market conditions, the class of Financial Instrument and the type of investment services provided. Annex IV provides more detail on the priority generally given to the execution factors for different asset classes.

9. TRADING VENUES AND EXECUTION VENUES

The term “**Trading Venue**” refers to one of the following:

- a regulated market (“**RM**”);
- a multilateral trading facility (“**MTF**”);
- an organised trading facility (“**OTF**”); and
- equivalent third-country facilities/exchanges/platforms (e.g. a swap execution facility).

The term “**Execution Venue**” refers to one of the following (each as defined under UK MiFID/the FCA Rules):

- a Trading Venue;
- a systemic internaliser (“**SI**”);
- a market maker;
- other liquidity providers; and
- third-country firms performing a similar function.

This Policy sets out the Execution Venues on which, or the third parties through which, XP UK may execute clients’ orders. XP UK has identified those venues on which, and brokers through which, it will most regularly seek to execute clients’ orders and which XP UK believes offer the best prospects for achieving the best possible results for clients.

- XP is able to execute trades on the client’s behalf on any of the following execution venues:
- Execution Venues that XP has access to either directly or via a third-party;
- SIs, market makers or other liquidity providers; and
- Outside the UK (“**third-country**”) facilities/firms that perform a similar function to any of the foregoing to which XP has access.

In these scenarios, XP will seek assurances from the third-party that it will provide XP with best execution. XP will also monitor the quality of execution it obtains from such third parties (see more information below).

XP reserves the right to use other Execution Venues or brokers according to prevailing economic conditions, liquidity and transparency considerations in order to obtain the best possible result.

When selecting the Execution Venue on which to transact or third parties through which to transact, XP will take reasonable measures to ensure that the selected Execution Venue or broker obtains the best possible result for clients, subject to the following factors:

- in the OTC Markets in which XP operates, the firm can only give the client visibility to prices that have been communicated to the firm by other liquidity providers/market makers/counterparties that operate in the same markets. However, XP will gather relevant market data in order to check whether the price offered for a client is fair and delivers on the best execution obligation;
- XP will capture details of the available tradable bids and offers (subject to other factors referred to below);

- time/availability of prices – in many markets, there are lulls and spikes in trading as negotiations align trading interests at different times and different parts of the curve; accordingly, the “last traded” price may not always be available or act as a reliable indicator of current prices;
- XP cannot control either the cost of credit (credit premium) or credit acceptance between its clients;
- XP cannot allow clients to trade in a market unless the firm is reasonably satisfied that the client (via agent or otherwise) is operationally capable of settling the relevant trade; and
- in certain markets clients are able to define who may trade with. Where this applies, a client may not be shown an interest of which they would not be able to interact with due to any pre-defined acceptance criteria by a potential counterparty.

The Execution Venues on which the firm places particular reliance in meeting its best execution obligations, and the relevant factors for selecting a particular Execution Venue, also vary depending upon the class of Financial Instruments to which your order relates.

Where XP provides a quote from a potential counterparty to a client on the back of receiving a request for quote (“**RFQ**”) from the client, and the quote meets the firm’s obligations to take all sufficient steps to obtain the best possible result for the client, if the client accepts the quote, XP will meet those obligations provided that, taking into account the changing market conditions and the time elapsed between the offer and accept of the quote, the quote is not manifestly out of date at the point of acceptance.

XP will publish the top five execution venues in terms of trading volumes for all executed client orders per class of financial instruments on an annual basis in accordance with the provisions in RTS 28 of UK MiFID. This information will be made available on XP’s website: www.xpi.co.uk.

10. ORDER HANDLING

XP has implemented procedures and arrangements which provide for the fair and expeditious execution of client orders and to allocate orders fairly when it conducts transactions involving several clients in the same Financial Instrument at the same time. This Policy sets out the procedures and arrangements that XP has enacted to adhere to these requirements.

If an order is given by one client only, it is executed in the normal manner in accordance with best execution and the entire execution is allocated to the client. Comparable client orders will be executed sequentially and promptly unless the characteristics of the order or prevailing market conditions make this impracticable, or the interests of the client require otherwise.

Aggregation and allocation

XP may aggregate client orders with those of other clients, in order to improve the execution. XP will not aggregate an order with another client order unless the following conditions are met:

- it is likely that the aggregation will not work to the overall disadvantage of any client whose order is to be aggregated; and
- where orders are aggregated with other client orders, these orders will be allocated on a fair and reasonable basis subject to any applicable rules and regulations.

Orders will be allocated according to the size of the original order. Where an order is not completed, to ensure fairness, XP will allocate partially executed orders on a pro-rata basis. Orders will be allocated to clients on a fair and equitable basis and XP will not favour one client over another.

Settlement of orders

In transactions where XP is responsible for monitoring and arranging the settlement of an executed order, XP will take all reasonable steps to ensure that any client Financial Instruments or client funds received in settlement of that executed order are promptly and correctly delivered to the account of the correct client.

11. MONITORING AND REVIEW

XP will monitor the effectiveness of its order execution and handling arrangements as documented in this Policy in order to identify and, where required, implement any required amendments to this Policy. XP will assess, on a regular basis, whether the Execution Venues included in this Policy obtain the best possible result for its clients or whether XP needs to make changes to its order handling and execution arrangements. These reviews will occur on an ad-hoc basis where a material change occurs that affects XP's ability to continue to obtain the best possible result for the execution of client orders on a consistent basis.

12. REPORTING

In addition to reporting on its top five execution venues (as described above), XP will publish data relating to the quality of execution, in accordance with the FCA Rules and the provisions in RTS 28 of UK MiFID.

13. INDUCEMENTS

XP shall not structure or charge its commissions in such a way as to discriminate unfairly between Execution Venues or brokers. XP shall not receive any third-party payments that do not comply with UK MiFID and shall inform clients about the inducements that the firm may receive from Execution Venues in accordance with applicable law.

14. CONSENT

Clients are deemed to consent to this Policy when they place an order after entering into a business relationship with XP.

15. RESPONSIBILITIES

Where applicable, XP's duty to provide the client with best execution does not imply that XP owes the client any fiduciary responsibilities over and above the specific regulatory obligations placed upon it or as may be otherwise contracted between XP and the client. The client remains responsible for its investment decisions and XP will not be responsible for any market trading loss the client may suffer as a result of those decisions.

ANNEX I – FINANCIAL INSTRUMENTS

Pursuant to the Section C of the UK MiFID Directive, the following are considered “**Financial Instruments**” and are within the scope of this Policy:

1. Transferable securities;
2. Money-market instruments;
3. Units in collective investment undertakings;
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
5. Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event;
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a MTF, or an OTF, except for wholesale energy products traded on an OTF that must be physically settled;
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in 6 and not being for commercial purposes, which have the characteristics of other derivative financial instruments;
8. Derivative instruments for the transfer of credit risk;
9. Financial contracts for differences;
10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of a default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF; and
11. Emission allowances consisting of any units recognised for compliance with the requirements of Directive 2003/87/EC (Emissions Trading Scheme).

ANNEX II – MATCHED PRINCIPAL EXEMPTION CONDITIONS

In accordance with article 29(2) of Capital Requirements Direct (definition of dealing on own account), an investment firm that executes investors' orders for financial instruments and holds such financial instruments for its own account does not, for that reason, deal on own account if the following conditions are met:

- a. such position only arises as a result of the investment firm's failure to match investors' orders precisely;
- b. the total market value of all such positions is no higher than 15% of the investment firm's initial capital;
- c. it complies with the requirements in articles 92 to 95 (Own funds requirements for investment firms with limited authorisation to provide investment services) and Part Four (Large exposures) of the EU Capital Requirements Regulation;
- d. such positions are incidental and provisional in nature and strictly limited to the time required to carry out the transaction in question.

ANNEX III – CLIENT CATEGORISATION

1. Retail Clients (COBS 3.4)

Retail Clients are clients who are not a Professional Client or Eligible Counterparty (Article 4(11) of MiFID). XP does not deal with Retail Clients.

2. Professional Clients (COBS 3.5)

- a. Professional Clients are considered to possess the experience, knowledge and expertise to make their own investment decisions and assess the risks inherent in their decisions. A Professional client is a client that is either a per se professional client or an elective professional client.
- b. Each of the following is a per se professional client unless and to the extent it is an eligible counterparty or is given a different categorisation:
 - i. an entity required to be authorised or regulated to operate in the financial markets. The following list includes all authorised entities carrying out the characteristic activities of the entities mentioned, whether authorised by the FCA or a third country and whether or not authorised by reference to a directive:
 1. a credit institution;
 2. an investment firm;
 3. any other authorised or regulated financial institution;
 4. an insurance company;
 5. a collective investment scheme or the management company of such a scheme;
 6. a pension fund or the management company of a pension fund;
 7. a commodity or commodity derivatives dealer;
 8. a local;
 9. any other institutional investor;
 - ii. in relation to MiFID business, large undertakings meeting two of the following size requirements on a company basis:
 1. balance sheet total of EUR 20m,
 2. net turnover of EUR 40m,
 3. Own funds of EUR 2m.
 - iii. in relation to non-MiFID business:
 1. a body corporate (including an LLP) which has (or has had at any time during the previous two years) called up share capital or net assets of at least GBP 5m (or its equivalent in any other currency at the relevant time);
 2. an undertaking that meets two of the following tests:
 - a. a balance sheet total of EUR 12.5m;
 - b. a net turnover of EUR 25m;
 - c. an average number of staff during the year of 250;
 3. a Partnership or unincorporated association which has (or has had at any time during the previous two years) net assets of at least GBP 5m (or its equivalent in any other currency at the relevant time) and calculated in the case of a limited partnership without deducting loans owing to any of the partners;

4. a trustee of a trust (other than an occupational pension scheme, SSAS, personal pension scheme or stakeholder pension scheme) which has (or has had at any time during the previous two years) assets of at least GBP 10m (or its equivalent in any other currency at the relevant time) calculated by aggregating the value of the cash and designated investments forming part of the trust's assets, but before deducting its liabilities
5. a trustee of an occupational pension scheme or SSAS, or a trustee or operator of a personal pension scheme or stakeholder pension scheme where the scheme has (or has had at any time during the previous two years):
 - a. at least 50 members; and
 - b. assets under management of at least GBP 10m (or its equivalent in any other currency at the relevant time);
6. national and regional governments, public bodies that manage public debt, central banks and international and supranational institutions; and
7. other institutional investors whose main activity is to invest in financial instruments, including entities.

3. Eligible Counterparties (COBS 3.7)

Each of the following is an Eligible Counterparty (including an entity that is not from the UK that is equivalent to any of the following):

- a. an investment firm;
- b. a credit institution;
- c. an insurance company;
- d. a collective investment scheme authorised under the UCITS Directive or its management company;
- e. a pension fund or its management company;
- f. another financial institution authorised or regulated under European Union legislation or the national law of an EEA State;
- g. an undertaking exempted from the application of MiFID under either Article 2(1)(k) (certain own account dealers in commodities or commodity derivatives) or Article 2(1)(l) (locals) of that directive;
- h. a national government or its corresponding office, including a public body that deals with the public debt;
- i. a central bank; and
- j. a supranational organisation.

ANNEX IV – PRIORITISATION OF EXECUTION FACTORS

Asset class:	Execution factor priority:	Explanation:
Interest Rate Derivatives – swaps, forwards and other derivatives – liquid markets	1) Price 2) Size 3) Speed 4) Likelihood of Execution 5) Costs 6) Nature 7) Other Considerations	There may be scenarios where the priority of execution factors will change for example: <ul style="list-style-type: none"> • where there is unusual levels of volatility, any of the factors may become of greater importance depending upon the circumstances; • where the characteristics of each individual order such as client preferences, nature will be more significant; • where there are unusual market conditions, speed and likelihood of execution will become more important; • when the order is received during the day and/or the size of order may affect the significance of speed and likelihood of execution; • due to a lack of liquidity on a particular venue or across venues where likelihood of execution and speed will become more important.
Interest Rate Derivatives – swaps, forwards and other derivatives – illiquid markets	1) Size 2) Price 3) Likelihood of execution and settlement 4) Speed 5) Costs 6) Nature 7) Any other consideration relevant to the execution of the order	There may be scenarios where the priority of execution factors will change for example: <ul style="list-style-type: none"> • where there is unusual levels of volatility, any of the factors may become of greater importance depending upon the circumstances; • where the characteristics of each individual order such as client preferences, nature will be more significant; • where there are unusual market conditions, speed and likelihood of execution will become more important; • when the order is received during the day and/or the size of order may affect the significance of speed and likelihood of execution; • due to a lack of liquidity on a particular venue or across venues where likelihood of execution and speed will become more important.

(continuation)

Asset class:	Execution factor priority:	Explanation:
Currency Derivatives – swaps, forwards and other derivatives - liquid markets	1) Price 2) Size 3) Speed 4) Likelihood of Execution 5) Costs 6) Nature 7) Other Considerations	There may be scenarios where the priority of execution factors will change for example: <ul style="list-style-type: none"> • where there is unusual levels of volatility, any of the factors may become of greater importance depending upon the circumstances; • where the characteristics of each individual order such as client preferences, nature will be more significant; • where there are unusual market conditions, speed and likelihood of execution will become more important; • when the order is received during the day and/or the size of order may affect the significance of speed and likelihood of execution; • due to a lack of liquidity on a particular venue or across venues where likelihood of execution and speed will become more important.
Currency Derivatives – swaps, forwards and other derivatives - illiquid markets	1) Size 2) Price 3) Likelihood of execution and settlement 4) Speed 5) Costs 6) Nature 7) Any other consideration relevant to the execution of the order	There may be scenarios where the priority of execution factors will change for example: <ul style="list-style-type: none"> • where there is unusual levels of volatility, any of the factors may become of greater importance depending upon the circumstances; • where the characteristics of each individual order such as client preferences, nature will be more significant; • where there are unusual market conditions, speed and likelihood of execution will become more important; • when the order is received during the day and/or the size of order may affect the significance of speed and likelihood of execution; • due to a lack of liquidity on a particular venue or across venues where likelihood of execution and speed will become more important.