

Close Brothers Asset Management

Quality of Execution Annual Report for the year 2018

April 2019

Introduction

On an annual basis CBAM is required to publish:

- a list of its top five execution venues in terms of trading volumes for all executed client orders by class of financial instruments, split between orders for Professional and Retail clients; and
- for each class of financial instrument, a summary of the analysis and conclusions drawn from CBAM's monitoring of the quality of execution obtained.

The content and format of this summary report and the associated execution venue lists have been prepared in accordance with European legislation and the rules of the Financial Conduct Authority (FCA). The purpose is to enable clients, investors and the public to evaluate the quality of CBAM's order execution practices. The top five execution venue tables are accessible via the link below:

<https://www.closebrothersam.com/media/2273/rts28.xlsx>

This information will be available in the public domain for a minimum period of two years.

Order Execution Arrangements

CBAM must take all sufficient steps to obtain the best possible results for its clients when executing orders. The execution factors taken into account are; price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of an order.

The relative importance of each of these factors will vary depending on:

- the characteristics of the client order;
- the characteristics of the financial instruments that are the subject of that order; and
- the characteristics of the brokers and execution venues to which that order can be directed.

Whilst the lists of top five execution venues are shown separately for Retail and Professional clients, for the purposes of best execution, CBAM treats all clients as Retail clients. Consequently, wherever possible, the primary execution factors are price and costs. CBAM aims to obtain the best possible result in terms of the total consideration, representing the price of the financial instrument and the costs related to execution (i.e. all expenses incurred by the client which are directly related to the execution of the order).

Other execution factors may be given precedence over the immediate price and cost consideration only insofar as they are instrumental in delivering the best possible result in terms of the total consideration to the client. For example, a client's order in a "small cap" equity (i.e. a company with a relatively small market capitalization) can be problematic where liquidity is restricted. In these circumstances we may prioritise likelihood of execution over price and accept a higher total cost of execution with a broker who is able to fulfil the order within an acceptable time frame.

CBAM's centralised Dealing Desk is responsible for processing all orders in financial instruments and ensuring best execution.

Oversight

Our approved brokers and execution venues are subject to an authorisation and ongoing monitoring process which is overseen by the Best Execution Oversight Committee (BEOC) – a sub-committee of CBAM's Risk and Compliance Committee. The BEOC meets monthly and its membership includes representatives from a range of departments including the Dealing Desk, Front Office, Compliance and Operations. Its role is to monitor dealing performance across the different asset classes and its standing agenda includes an analysis of execution quality and broker performance over the previous month and calendar year to date.

As part of this oversight, detailed monthly management information is produced using a third party transaction cost analysis system.¹ Trades are reviewed on an exceptions basis against predefined execution benchmarks and the reasons for any such exceptions are reviewed. In addition, a sub-group of this committee meets on a quarterly basis to review the performance of our brokers across the three main asset classes namely Equities (split between Large and Small cap trades), Exchange Traded products and Bonds.

Conflicts of Interest

CBAM uses the execution services of Winterflood Securities Ltd (Winterflood) which is a wholly owned subsidiary of the Close Brothers group, among other counterparties. There is no commercial incentive for CBAM in executing and placing orders with Winterflood. The use of Winterflood is entirely at the discretion of CBAM's Dealing Desk with the aim of achieving the best possible outcome for clients. The performance of Winterflood and its execution quality is monitored each month at the BEOC. Our analysis has demonstrated that this close link did not influence CBAM's selection of Winterflood as an approved broker during 2018.

CBAM does not receive payments, discounts, rebates or material non-monetary benefits in connection with its execution arrangements. Minor non-monetary benefits may be received but only in line with CBAM's internal policies and procedures.

For further information on our approach to order execution, please see our Order Execution Policy at www.closebrothersam.com/best-execution.

Financial Instruments

The below lists show the classes of financial instruments included in this report and those classes where CBAM did not execute client orders during 2018.²

This report provides information on the following classes of instruments

Equities – Shares and Depositary Receipts – split by the following tick sizes
 Tick sizes 5-6 (large capitalisation shares)
 Tick sizes 3-4 (medium capitalisation shares)
 Tick sizes 1-2 (smaller capitalisation shares)
 Exchange traded products (exchange traded funds, exchange traded notes and exchange traded commodities)
 Debt instruments – Bonds
 Currency derivatives – Swaps, forwards and other currency derivatives

These instruments are not included in this report

Money markets instruments	Futures and options admitted to trading on a trading venue	Other securitised derivatives
Futures and options admitted to trading on a trading venue	Structured finance instruments	Options and Futures admitted to trading on a trading venue
Swaps, forwards and other interest rates derivatives	Options and Futures admitted to trading on a trading venue	Other commodities derivatives and emission allowances derivatives
Futures and options admitted to trading on a trading venue	Swaps and other equity derivatives	Contracts for difference
Other credit derivatives	Warrants and Certificate Derivatives	Emission allowances

Equities (Shares and depositary receipts) and Exchange traded products (Exchange traded funds, exchange traded notes and exchange traded commodities)

During 2018, we used a variety of firms – large and small – from our extensive Approved Brokers List to source liquidity and obtain the best possible result when carrying out client orders. For some brokers, we can access “high touch” trading desks. The benefits of using this type of broker include their ability to source supply as they understand the market flows and are willing to take stocks onto their own book if required to complete a sale. Where there is liquidity across different execution venues, we place the highest importance on price and then costs associated with execution. For less liquid equities, such as smaller capitalisation or AIM listed stocks, likelihood and speed of execution may take precedence.

We continue to look at ways of reducing costs through low touch trading venues for example by using broker-supplied algorithms. We have also introduced greater automation between our Dealing Desk and the brokers we use through an electronic order-routing system. This helps us to achieve better pricing and improves our speed of execution for smaller orders in UK equities. Our ongoing monitoring also identified the need to consider additional execution venues for ETF orders in 2018, resulting in the addition of Flow Traders and Jane Street. We now use an ETF trading platform which allows us to poll up to 8 different brokers for best pricing.

¹. CBAM does not currently use the output from consolidated tape providers.

². The associated top five execution tables reflect the nature of our interaction when carrying out client orders and whether we have executed an order with an execution venue or transmitted an order to a broker for that broker to execute on our behalf. For more information on the scope of best execution, please refer to our Order Execution Policy.

Our analysis for 2018 concluded that the relative importance given to the execution factors was in line with our order execution policy.

Bonds

In addition to price, given the large variance in liquidity in the bond market, we also consider likelihood of execution as important. Price discovery within bonds is incomplete which can often limit choice.

During 2018, we signed a new agreement with King and Shaxson, to provide additional liquidity. The majority of our bond trades are executed through Bloomberg Trading Facility Limited's multilateral trading facility, BMTF. This trading venue allows us to check pricing prior to executing with the broker that offers the best terms.

Our analysis for 2018 concluded that the relative importance given to the execution factors was in line with our order execution policy.

Currency derivatives

The only orders executed in currency derivatives were forward FX traded with BNY Mellon for Professional clients only. All of these trades were executed with BNY Mellon in accordance with the terms of an administration agreement using an externally published benchmark price.

The arrangements are kept under regular review by our Currency Hedging Committee which meets quarterly. In addition, CBAM also undertakes annual due diligence of its outsourcing arrangements with BNY Mellon including their forward FX activities. Whilst BNY Mellon acts as trustee to our fund range, we do not consider there to be any conflicts of interest associated with these orders, the pricing for which is competitive.

Other orders

These orders are placed with CIS (Collective Investment Scheme) management companies with the exception of VP Bank to which we transmit orders as directed by one of our institutional clients. Close Asset Management (UK) Limited is the management company for CBAM's own range of managed funds which are available to clients of CBAM's investment services as well as external investors.

For CIS orders, the primary execution factor is speed as the price will be limited to that calculated by the CIS manager, usually once a day although the cut-off times for submission of orders will vary depending on the provider. TCA analysis is not relevant to these orders, so the principal focus is ensuring trades are transmitted ahead of the deadline and that any late trades are identified and the causes reviewed at our BEOC meetings. Our analysis for 2018 concluded that the relative importance given to the execution factors was in line with our order execution policy.