

Close Brothers Asset Management

Quality of Execution Annual Report for the year 2017

April 2018

This report provides information on execution quality obtained on behalf of the Close Brothers Asset Management (CBAM) division of Close Brothers.

On an annual basis CBAM is required to publish:

- a list of its top 5 execution venues in terms of trading volumes for all executed client orders by class of financial instruments; 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 report has been prepared in accordance with European legislation and the rules of the Financial Conduct Authority (FCA). Its purpose is to enable clients, investors and the public to evaluate the quality of CBAM's order execution practices. In this first report, and in accordance with European regulatory guidelines, we are not able to report on all of the information required by the relevant regulations. As a result, we recognise that this report may lack some of the detail that will be available for subsequent reports.¹

This report 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, when executing orders, the best possible results for its clients taking into account the following execution factors; 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/or execution venues to which that order can be directed.

For the purposes of best execution, CBAM treats all clients as Retail clients in accordance with the FCA's Client Categorisation rules. 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.

CBAM's centralised Dealing Desk is responsible for processing all orders in financial instruments. 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 as well as the Chief Investment Officer and the Chief Operating Officer, Investments. Its regular agenda includes analysis of execution quality and broker performance.

¹ By way of example, the 2018 report – which will be published by 30th April 2019 – will provide additional analysis as required by the regulations on (i) separate top 5 execution venues tables for orders executed and orders placed with other entities for execution, (ii) top 5 execution venues tables for equities categorised by liquidity in accordance with the EU Tick Size Regime and (iii) the results of our analysis of the order execution reports published by our brokers and execution venues.

Conflicts of Interest

CBAM uses the execution services of Winterflood Securities Ltd (Winterflood) which is a wholly owned subsidiary of the Close Brothers group. 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 2017.

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. During 2017, CBAM followed its inducements procedures in line with its regulatory obligations. CBAM continued to receive and accept investment research from some of its brokers in return for broker commission paid on client orders. Such investment research was available for the benefit of all clients. All such arrangements required each broker to meet our internal criteria – which included an obligation for them to provide best execution – and were subject to regular assessment and review. Where CBAM received trail commission from collective investment scheme (CIS) providers (for example, unit trust managers), these monies were allocated for the benefit of clients except where the amount received was deemed de minimis.

For further information on our approach to order execution, please see our Order Execution Policy which is available at www.closebrothersam.com/best-execution. For more information on CBAM's approach to investment research following the implementation of MiFID II in January 2018, please see our Investment Research policy www.closebrothersam.com/policies.

Financial Instruments

The tables below list the classes of financial instruments included in this report and those classes where CBAM did not execute client orders during 2017.

Classes of instruments included in this report		
Equities – Shares and Depositary Receipts		
Debt instruments – Bonds		
Currency derivatives – Swaps, forwards and other currency derivatives		
Exchange traded products (exchange traded funds, exchange traded notes and exchange traded commodities)		
Other instruments		
Classes of instruments 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

i) Equities – Shares and depositary receipts ²

Notification if <1 average trade per business day in previous year ⁵	N				
Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as a percentage of total in that class	Percentage of passive orders ³	Percentage of aggressive orders ⁴	Percentage of directed orders
Winterflood Securities	13.39	47.02	N/A	N/A	N/A
Merrill Lynch	7.02	0.92	N/A	N/A	N/A
Bernstein	6.39	1.31	N/A	N/A	N/A
Credit Suisse Securities Europe Ltd	6.27	2.5	N/A	N/A	N/A
Jefferies	5.81	4.99	N/A	N/A	N/A

² This table covers orders in both UK and overseas instruments.

³ 'Passive order' means an order entered into the order book that provided liquidity. This information is not available for this report.

⁴ 'Aggressive order' means an order entered into the order book that took liquidity. This information is not available for this report.

⁵ The regulations require that we explicitly state whether we have executed an average of less than one trade per business day in the previous year in that class of financial instruments. As a result, this section will either be marked Y (Yes) or N (No).

ii) Exchange traded products (Exchange traded funds, exchange traded notes and exchange traded commodities)

Notification if <1 average trade per business day in previous year	N				
Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as a percentage of total in that class	Percentage of passive orders	Percentage of aggressive orders	Percentage of directed orders
Societe Generale	22.70	10.48	N/A	N/A	N/A
Royal Bank of Canada	18.48	3.51	N/A	N/A	N/A
Cantor	17.01	5.46	N/A	N/A	N/A
Winterflood Securities	16.12	51.37	N/A	N/A	N/A
Macquarie	7.72	22.04	N/A	N/A	N/A

Where high availability of liquidity exists across a number of different execution venues, we place the highest importance on price and then costs associated with execution. For less liquid equities, likelihood of execution and speed may increase in priority.

During 2017, we used a variety of firms – large and small – to source liquidity and obtain the best possible result. Winterflood offered good results for smaller orders (for the most part in UK listed instruments) whilst larger orders, requiring a high touch service, were placed with our other approved brokers, for example Merrill Lynch and Bernstein. We also appointed a new broker, KBW, where it was felt that they offered good execution in financials.

We also continued to look at ways of reducing the cost of trading, for example, by using broker-supplied algorithms. In addition, we commenced a project to introduce greater automation between our Dealing Desk and brokers with the aim of delivering price improvement and improving the 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.

The BEOC reviews the performance of brokers used to execute orders in equities and exchange traded products quarterly. To help with this, we used a third party Transaction Cost Analysis (TCA) monitoring system which assisted with our ongoing monitoring and the output of which was reported to the BEOC on a monthly basis for review. Our analysis in 2017 concluded that the relative importance given to the execution factors was in line with our order execution policy.

iii) Bonds

Notification if <1 average trade per business day in previous year	N				
Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as a percentage of total in that class	Percentage of passive orders	Percentage of aggressive orders	Percentage of directed orders
Citigroup Global Markets Ltd	19.10	12.04	N/A	N/A	N/A
Barclays Capital	14.30	10.93	N/A	N/A	N/A
JP Morgan	9.20	11.2	N/A	N/A	N/A
HSBC	8.83	8.54	N/A	N/A	N/A
Credit Suisse Securities Europe Ltd	8.81	3.41	N/A	N/A	N/A

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 2017, we signed agreements with Goldman Sachs – thereby gaining access to their new sterling fixed interest team – as well as Bloomberg Trading Facility Limited's multilateral trading facility, BMTF. We selected counterparties that could source liquidity as well as provide access to new issues.

The BEOC reviews the performance of brokers used to execute orders in bonds quarterly. To help with this, we used a third party Transaction Cost Analysis (TCA) monitoring system which assisted with our ongoing monitoring and the output of which was reported to the BEOC on a monthly basis for review. Our analysis for 2017 concluded that the relative importance given to the execution factors was in line with our order execution policy.

i) Currency derivatives – Swaps, forwards, and other currency derivatives

Notification if <1 average trade per business day in previous year	N				
Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as a percentage of total in that class	Percentage of passive orders	Percentage of aggressive orders	Percentage of directed orders
BNY Mellon	100.00%	100.00%	N/A	N/A	N/A

The only orders executed in currency derivatives were forward FX traded with BNY Mellon. 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 Hedging Committee which meets quarterly and whose monitoring of FX trades will now be reported to the BEOC. In addition, CBAM undertook its annual due diligence on BNY Mellon's forward FX activities including participation from Risk, Compliance and Funds Governance. 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.

v) Other instruments

Notification if <1 average trade per business day in previous year	N				
Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as a percentage of total in that class	Percentage of passive orders	Percentage of aggressive orders	Percentage of directed orders ⁶
Close Asset Management (UK) Ltd	25.02	56.31	N/A	N/A	N/A
HSBC Global Asset Management (UK) Ltd	8.86	1.05	N/A	N/A	N/A
Schroder Unit Trusts Ltd	5.92	3.96	N/A	N/A	N/A
VP Bank	3.35	0.08	N/A	N/A	100.00%
Capital Group Investor Services	2.88	1.56	N/A	N/A	N/A

The venues reported in this table are 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. We have included this information in order to provide full transparency and in accordance with our understanding of the regulations and industry best practice. Close Asset Management (UK) Limited is the management company for CBAM's own range of managed funds which are available, where suitable, to clients of CBAM's Personal Financial Planning Service 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. TCA analysis is not relevant to these orders. However, the BEOC will consider matters affecting the prompt and accurate execution of such orders from time to time. Our analysis for 2017 concluded that the relative importance given to the execution factors was in line with our order execution policy.

⁶ 'Directed order' means an order where a specific execution venue was specified by the client prior to the execution of the order.