



Quality of Execution Annual Report for the year 2019

April 2020

INTRODUCTION

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, 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 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. The top five execution venue tables are accessible via www.closebrothersam.com/best-execution/

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 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 5 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. 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 2019.

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 following lists show the classes of financial instruments included in this report and those classes where CBAM did not execute client orders during 2019.

Classes of instruments included in this report

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.

Other instruments not included in this report

Money markets instruments. Futures and options admitted to trading on a trading venue. Swaps, forwards and other interest rates derivatives. Futures and options admitted to trading on a trading venue. Other credit 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 and other equity derivatives. Warrants and Certificate Derivatives.	Other securitised derivatives. Options and Futures admitted to trading on a trading venue. Other commodities derivatives and emission allowances derivatives. Contracts for difference. Emission allowances.
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EQUITIES (SHARES AND DEPOSITARY RECEIPTS) AND EXCHANGE TRADED PRODUCTS (EXCHANGE TRADED FUNDS, EXCHANGE TRADED NOTES AND EXCHANGE TRADED COMMODITIES)

During 2019, 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 large traders, 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 utilise order automation between our Dealing Desk and some of the brokers we use through an electronic order-routing system (Proquote). In May 2019, we completed a project to improve the use of this system thereby providing a live dynamic trading platform allowing us to access real time market quotes and polling against various brokers. This helps us to achieve better pricing and improves our speed of execution for smaller orders in UK equities.

In addition, during 2019, we signed a new agreement with Optiver, a leading global electronic market maker in exchange traded funds (ETFs) providing additional liquidity when trading ETFs.

Our analysis for 2019 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. The majority of our bond transactions are executed on Bloomberg's Multilateral Trading Facility (BMTF). BMTF is considered a trading venue; however, for our RTS 28 Top 5 Venues report, this references the underlying counterparty of each transaction.

Our analysis for 2019 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.

The arrangements are kept under regular review by our Performance Governance & Review Committee (PGR) 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

Orders within this category are those placed with Collective Investment Schemes (CIS) management companies and, in addition, equity transactions in securities that are not part of ESMA Transitional Transparency Calculations and therefore not allocated a tick size and included in the specific equity category.

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 2019 concluded that the relative importance given to the execution factors was in line with our order execution policy.

Close Brothers Asset Management is a trading name of Close Asset Management Limited (Registered number: 01644127) and Close Asset Management (UK) Limited (Registered number: 02998803). Both companies are part of the Close Brothers Group plc group of companies, are registered in England and Wales and are authorised and regulated by the Financial Conduct Authority. Registered office: 10 Crown Place, London EC2A 4FT. VAT registration number: 245 5013 86.