



ARBUTHNOT LATHAM

Bankers since 1833

Quality of Execution Report 2019

Introduction

The Markets in Financial Instruments Directive (MiFID II) requires investment firms who execute client orders to summarise and make public on an annual basis, for each class of financial instruments, the top five execution venues in terms of trading volumes where they transmitted, placed or executed client orders in the preceding year, and information on the quality of execution obtained.

This report provides an assessment of the overall quality of execution obtained for our clients on all Execution Venues used by us across all classes of financial instruments during the period.

The Top Five Execution Venues quantitative tables, detailing the top five execution venues in terms of trading volumes, split by class of financial instruments and differentiated between execution and transmission, are available on our website in a machine-readable format.

Monitoring Approach

Arbuthnot Latham & Co., Limited (AL) uses software provided by LiquidMetrix, a third party specialised in execution quality assessment and transaction cost analysis, to benchmark transactions against Execution Venues available and follows internal procedures to monitor and review the continued effectiveness of its execution arrangements.

Execution quality analysis is carried out both periodically and, on an ad-hoc basis to assess and determine where best execution has or has not been achieved. We apply a tolerance to the benchmark in line with industry practice and investigate any transaction with a price outside the set tolerance. Monitoring results are provided to the Execution Review Committee, which meets on a quarterly basis.

Evidence to support the selection of an Execution Venue as a result of a Request for Quote (RFQ) is held on a trade-by-trade basis, and analysed by a team separate from the Dealing Team to ensure that no unfair precedence is given to any one Execution Venue.

We had hoped to use data published by Execution Venues on the quality of executions to support our in-house monitoring, however, the data is not easily readable. We have engaged various Execution Venues to discuss how the data can be used and expect such data to assist us with our assessment in the near future.

Quality of Execution Summary

The quality of execution during 2019 was in line with expectations for all asset classes. According to the transaction cost analysis performed:

- 26.85% of the benchmarked trades achieved a better price than the benchmark;
- 67.85% of the benchmarked trades achieved a price within a tolerance level from the benchmark; and
- 5.30% of the benchmarked trades achieved a price outside the tolerance level from the benchmark.

The transaction cost analysis compares the price achieved on each benchmarked trade, against the average price at which the same financial instrument was traded in the market, in the period between the arrival of an order at the Dealing Team's desk and the order being executed.

Funds have not been benchmarked as these are executed at a published Net Asset Value price.

AL also carries out fill level monitoring to ensure that at the point of execution/transmission a more favourable price was not available on another Execution Venue, including a tolerance.

According to the fill level monitoring performed:

- 85.72% of the benchmarked trades achieved a better price than the price available on another Execution Venue;
- 7.83% of the benchmarked trades achieved an equal or price within a tolerance level from the price available on another Execution Venue;
- 4.39% of the benchmarked trades achieved a price outside the price available on another Execution Venue with a tolerance applied; and
- 2.06% of executions could not be benchmarked as there was insufficient volume to generate an effective price.

Relative Execution Factor Importance

When executing/transmitting client orders, AL considers the following execution factors, shown below in descending order:

- Price;
- Speed of execution;
- Size of the order and available market liquidity;
- Execution costs, such as exchange execution and clearing fees;
- Likelihood of execution and settlement;
- Nature of the order; and
- Any other consideration relevant to the execution of the order, such as potential market impact.

In determining the relative importance of the execution factors, we use our commercial judgment and experience in light of the market information available and take into account the characteristics of the client, the order type, the financial instruments that are subject of the order and the Execution Venues to which the order can be directed.

For most liquid securities, price and cost tend to be the dominant factors. We frequently engage with Execution Venues on a Request for Quote (RFQ) basis. This means that when we look to execute an order

in an equity, fixed income or foreign exchange product, we request a price from a number of Execution Venues simultaneously, and execute at the best price available at the time where price is the most important execution factor for the trade.

However, there are occasions where we will change the priorities given to the execution factors and other factors will take precedent to achieve the best possible outcome for the client. For example, in times of severe market disruption or in the event of a system outage, speed and certainty of execution and settlement may be prioritised. In such circumstances, we will follow the processes and procedures in place and will consider whether or not our ability to continue trading has been materially affected by such disruptions.

Execution Venues – Changes

The AL Execution Review Committee meets quarterly to evaluate and assess the quality of execution and to agree any changes to the Best Execution Policy and to the list of approved Execution Venues.

In late 2019, the Execution Review Committee approved the addition of Goldman Sachs, Investec Bank and Jefferies to the list of Execution Venues to provide access to a larger suite of electronic trading programs as well as the Retail Service Provider (RSP) network execution services. AL also added State Street as a foreign exchange counterparty with whom we interact through the multi dealer platforms FXGO and SpotStream.

No other changes to our Execution Venues were made in 2019. A list of our current Execution Venues can be found within our Best Execution Policy also available on our website.

Client Categorisation

AL categorises all its clients as retail clients. Our Best Execution Policy therefore applies to the execution of orders on behalf of all our clients.

Execution Venues – Closed Links, Conflicts of Interest and Common Ownerships

AL has no closed links, conflicts of interest or common ownerships with respect to any Execution Venues used. However, in the reporting period we executed all trades in Currency Derivatives, Swaps, Forwards, and Other Currency Derivatives through our internal treasury desk. For this service, AL Investment Management pays a fixed charge per transaction to AL Treasury. This arrangement is reviewed quarterly by the Execution Review Committee to ensure it continues to provide best execution for our clients.

Execution Venues – Payments

AL has no arrangements with Execution Venues regarding payments made or received, discounts, rebates or non-monetary benefits received.

Consolidated Tape Provider (CTP) Usage

At the time of this report there is no consolidated tape showing a comprehensive list of transactions across all venues, as a result of this AL did not make use of any consolidated tape providers.

Additional Information

Below is an explanation of some of the terms used in the Top Five Execution Venues quantitative tables:

'Passive Order' means an order entered into the order book that provided liquidity.

'Aggressive Order' means an order entered into the order book that took liquidity.

'Directed Order' means an order where a specific Execution Venue was specified by the client prior to the execution of the order.

'Execution' means when AL directly faces an Execution Venue, e.g. London Stock Exchange.

'Placement/Transmission' means when AL indirectly accesses an Execution Venue via a Broker/Agent.