

# HOTTINGER



# GROUP

## ORDER AND BEST EXECUTION REPORT 2017

**SUMMARY:** This document represents Hottinger Investment Management Limited (“HIM”) - FRN 208737 - Best Execution Report for 2017 (the “2017 Execution Report”)

**OWNER:** Chief Executive Officer (“CEO”), the Compliance Oversight Officer (“CO”) and the Board of Directors (the “Board”)

**EFFECTIVE DATE:** April 2018

**STATUS:** Live

**APPROVED BY:** HIM’s Board in April 2018

### MODIFICATION HISTORY:

| Version      | Date Approved | Reviewed By | Changes    |
|--------------|---------------|-------------|------------|
| v.04.2018.01 | April 2018    | CEO and COO | New Report |

## CONTENTS:

1. Overview
2. Order Execution Policy
3. Regulatory Standards 28 (RTS 28)
4. Top Five Brokers/Counterparties by Class of Financial Instrument

## 1. OVERVIEW

### 1.1 BACKGROUND

Hottinger Investment Management Limited (“**HIM**”) is authorised and regulated by the Financial Conduct Authority (“**FCA**”). HIM has an obligation, in accordance with its regulator, the FCA, the FCA Rules (the “**FCA Rules**”), the revised Markets in Financial Instruments Directive 2014/65/EU (“**MiFID II**”) and the new Markets in Financial Instruments Regulation (EU) No 600/2014 (“**MiFIR**”) and under Article 27 (1) of MiFID II and COBS 11.2A.2R of the FCA Rules, to execute orders on terms most favourable to its client. This means that the Firm must take all sufficient steps to obtain, when executing orders, the best possible results for its clients taking into account the execution factors. The execution factors to be 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.

Details of this are outlined in HIM’s Order Execution Policy, which is published on the Hottinger Group website at [www.hottinger.co.uk](http://www.hottinger.co.uk).

Furthermore, in accordance with Article 27(8) of MiFID II (and as set out in the FCA’s Rules, COBS 11.2A.32R (1) and (2)), HIM is obliged to be able to demonstrate to its clients, on request, that all trades have been executed in accordance with its Order Execution Policy.

HIM is also required to make certain annual disclosures on the top five execution venues/investment firms with whom it has placed orders for execution in the previous year. The specific information required to be disclosed is set out in the European Securities and Markets Authority’s (**ESMA**) Regulatory Technical Standards 28 (**RTS 28**) of MiFID II.

RTS 28 requires HIM to complete specific templates for each class of financial instrument in which it places orders, setting out the percentage volume and number of orders of its top five brokers and information on the quality of the execution obtained. This information has to be broken down by retail clients and professional clients. HIM provides services to both retail and professional clients so the information provided is based upon orders executed on behalf of both retail and professional clients.

In accordance with RTS 28, HIM is also required to provide information on any close links, conflicts of interest and common ownerships it might have with the investment firms with which it places orders. HIM can confirm that it has no close links, conflicts of interest nor common ownerships with its order execution facilities provided by the clearing, settlement and/or custody providers to its portfolio management services and/or its brokers as set out in HIM's Order Execution Policy.

HIM is also able to confirm that it has not entered into specific arrangements with the clearing, settlement and/or custody providers and/or its brokers regarding payments made or received, discounts, rebates or non-monetary benefits. Prior to the implementation of MiFID II, HIM took the decision to pay for all research it receives from the clearing, settlement and/or custody providers, brokers and third party research providers directly out of its own resources. HIM has agreed common execution only commission rates with its brokers which are solely subject to variations by region and transaction type.

## 1.2 PRINCIPLES AND RULES

| Principles/Rules | Requirements                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Principle 2      | A firm must conduct its business with due skill, care and diligence.                                                                                                                                                                                                                                                                                                                                                                            |
| Principle 6      | A firm must pay due regard to the interests of its customers and treat them fairly.                                                                                                                                                                                                                                                                                                                                                             |
| Principle 9      | A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment.                                                                                                                                                                                                                                                                                |
| SYSC 3           | Systems and Controls                                                                                                                                                                                                                                                                                                                                                                                                                            |
| SYSC 4           | General organisational requirements                                                                                                                                                                                                                                                                                                                                                                                                             |
| COBS 2           | Conduct of business obligations                                                                                                                                                                                                                                                                                                                                                                                                                 |
| COBS 11.2A.2R    | Obligation to execute orders on terms most favourable to the client -<br>(1) A firm must take all sufficient steps to obtain, when executing orders, the best possible results for its clients taking into account the execution factors.<br>(2) The execution factors to be 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. |

|                |                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| COBS 11.2A.32R | <p>(1) A firm must be able to demonstrate to its clients, at their request, that it has executed their orders in accordance with its execution policy.</p> <p>(2) A firm must be able to demonstrate to the FCA, at the request of that authority, its compliance with COBS 11.2A.2R and with the related provisions in this chapter which require firms to execute orders on terms most favourable to the client.</p> |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

| Principles/Rules                                                                | Requirements                                                                                                                                                                                                                                                      |
|---------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Article 27 of MiFID II<br>- Article 27(1)<br>- Article 27(6)<br>- Article 27(8) | Obligation to execute orders on terms most favourable to the client                                                                                                                                                                                               |
| MiFID RTS 28                                                                    | Commission Delegated Regulation (EU) 2017/576 of 8 July 2016 supplementing MiFID with regard to regulatory technical standards for the annual publication by investment firms of information on the identity of execution venues and on the quality of execution. |

### 1.3 RELATED DOCUMENTS AND POLICIES

- Compliance Manual; and
- Order and Best Execution Policy

## 2. ORDER EXECUTION POLICY

Prior to the provision of its portfolio management services, HIM provides its retail and professional clients with its Order Execution Policy, which is included as a Schedule to its Investment Management Agreement (**IMA**).

HIM's Order Execution Policy includes, inter alia, in respect of each class of financial instruments, information on the different execution venues where HIM executes its client orders and the factors affecting the choice of execution venue; and information on the different approved counterparties where HIM place orders (i.e. receives and transmit orders) on behalf of its clients. HIM's Order Execution Policy also includes those execution venues that enable it to obtain on a consistent basis the best possible result for the execution of client orders.

### 3. REGULATORY STANDARDS 28 (RTS 28)

As required by RTS 28, and as outlined in the Tables outlined in Section 4 below, HIM has set out (for each class of financial instruments) the relative importance it assigns to the following execution factors: price, costs, speed, likelihood of execution, size and nature of the order.

In its selection of brokers and order execution, HIM applies the same process consistently across all of its clients, except where a client has directed HIM to deal exclusively through a particular broker of the client's choice.

Broker execution performance in listed equities is monitored on a continuous basis by HIM's portfolio managers. Once a trade has been placed with a broker or a counterparty, prices are checked against the prevailing price in the market; its progress is monitored on a real time basis. The executed price is monitored against the prevailing market price at the time of execution.

HIM works to identify and establish appropriate benchmarks for our style of investing and process. The analysis aims to capture the effectiveness of the execution process in aggregate whilst also identifying exceptions based on predefined criteria and tolerances versus benchmarks that may include opening and closing prices, volume and volatility events and possibly news events.

### 4. TOP FIVE BROKERS/COUNTERPARTIES BY CLASS OF FINANCIAL INSTRUMENT

RTS 28 requires HIM to set out the percentage of orders that were passive and aggressive orders.

A '**passive order**' is defined as an order entered into the order book that effectively provides liquidity.

An '**aggressive order**' is defined as an order entered into the order book that effectively takes liquidity.

A '**directed order**' is defined as an order where a specific execution venue was specified by the client prior to the execution of the order.

As set out in ESMA's Investor Protection Q&A (Q 14), portfolio managers should only identify passive or aggressive orders where the portfolio manager has attached a specific instruction to an order, and that instruction is understood to mean that the broker will execute the order in a fashion that is either passive or aggressive.

| Class of Instrument:                                                            |                                                                    | (a) Equities - Shares & Depository Receipts - (i) Tick size liquidity bands 5 and 6 (from 2000 trades per day) |                                           |                                 |                               |
|---------------------------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|-------------------------------------------|---------------------------------|-------------------------------|
| Notification if <1 average trade per business day in the previous year:         |                                                                    | Y                                                                                                              | Class Percentage of total equity volumes: |                                 | 71.24%                        |
| 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 percentage of total in that class                                             | Percentage of passive orders              | Percentage of aggressive orders | Percentage of directed orders |
| KBL Luxembourg                                                                  | 30.62%                                                             | 7.72%                                                                                                          | N/A                                       | N/A                             | N/A                           |
| Credo Group                                                                     | 28.37%                                                             | 58.95%                                                                                                         | N/A                                       | N/A                             | N/A                           |
| Jefferies                                                                       | 16.38%                                                             | 16.36%                                                                                                         | N/A                                       | N/A                             | N/A                           |
| Bank of Julius Baer Group                                                       | 11.45%                                                             | 9.57%                                                                                                          | N/A                                       | N/A                             | N/A                           |
| Lyford Bank                                                                     | 11.27%                                                             | 5.25%                                                                                                          | N/A                                       | N/A                             | N/A                           |

#### Execution Factors – Equities – Liquidity Band 5 and 6 – ‘Liquid equities’:

- Price
- Costs
- Speed
- Size and nature of the order
- Other transaction costs

The broker’s ability to produce best results in the fields of price and costs is of most significance followed by speed, likelihood of execution and settlement, the size and nature of the order, market impact and any other implicit transaction costs. For the most liquid markets, prices can move quickly, thus a demonstrably rapid and effective venue is called for.

| Class of Instrument:                                                            |                                                                    | (a) Equities - Shares & Depository Receipts - (ii) Tick size liquidity bands 3 and 4 (from 80 to 1999 trades per day) |                                           |                                 |                               |
|---------------------------------------------------------------------------------|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------------|---------------------------------|-------------------------------|
| Notification if <1 average trade per business day in the previous year          |                                                                    | N                                                                                                                     | Class Percentage of total equity volumes: |                                 | 24.2%                         |
| 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 percentage of total in that class                                                    | Percentage of passive orders              | Percentage of aggressive orders | Percentage of directed orders |
| Credo Group                                                                     | 62.59%                                                             | 77.23%                                                                                                                | N/A                                       | N/A                             | N/A                           |
| KBL Luxembourg                                                                  | 10.89%                                                             | 1.98%                                                                                                                 | N/A                                       | N/A                             | N/A                           |
| Jefferies                                                                       | 8.67%                                                              | 11.88%                                                                                                                | N/A                                       | N/A                             | N/A                           |
| Bank of Julius Baer Group                                                       | 5.45%                                                              | 1.98%                                                                                                                 | N/A                                       | N/A                             | N/A                           |
| Lyford Bank                                                                     | 5.27%                                                              | 1.98%                                                                                                                 | N/A                                       | N/A                             | N/A                           |

#### Execution Factors – Equities – Liquidity Band 3 and 4 - ‘Less liquid equities’:

- Price
- Costs
- Likelihood of execution
- Size and nature of the order
- Market impact
- Other transaction costs

For slightly less liquid markets, the impact of the trades takes greater significance, but speed of execution remains an important factor.

| Class of Instrument:                                                            |                                                                    | (a) Equities - Shares & Depository Receipts - (iii) Tick size liquidity band 1 and 2 (from 0 to 79 trades per day) |                                           |                                 |                               |
|---------------------------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|-------------------------------------------|---------------------------------|-------------------------------|
| Notification if <1 average trade per business day in the previous year:         |                                                                    | N                                                                                                                  | Class Percentage of total equity volumes: |                                 | 4.54%                         |
| 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 percentage of total in that class                                                 | Percentage of passive orders              | Percentage of aggressive orders | Percentage of directed orders |
| Credo Group                                                                     | 72.72%                                                             | 75.56%                                                                                                             | N/A                                       | N/A                             | N/A                           |
| KBL Luxembourg                                                                  | 10.11%                                                             | 2.22%                                                                                                              | N/A                                       | N/A                             | N/A                           |
| Stockdale                                                                       | 8.32%                                                              | 2.22%                                                                                                              | N/A                                       | N/A                             | N/A                           |
| Jefferies                                                                       | 7.68%                                                              | 11.11%                                                                                                             | N/A                                       | N/A                             | N/A                           |
| Tavira                                                                          | 0.92%                                                              | 2.22%                                                                                                              | N/A                                       | N/A                             | N/A                           |

#### Execution Factors – Equities – Liquidity Band 1 and 2 – ‘Illiquid equities’:

- Price
- Costs
- Market depth -- likelihood of settlement.
- Market impact -- size and nature of the order
- Other implicit transaction costs

For less liquid instruments such as these, other execution factors outweigh speed. Market depth must be demonstrable as must settlement considerations. In practice, this means that execution can take longer as the imperative is to minimise the impact on the market price of any order.

| Class of Instrument:                                                            |                                                                    | (b) Debt Instruments - (i) Bonds                                   |                              |                                 |                               |
|---------------------------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------|------------------------------|---------------------------------|-------------------------------|
| Notification if <1 average trade per business day in the 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 percentage of total in that class | Percentage of passive orders | Percentage of aggressive orders | Percentage of directed orders |
| Lyford Bank                                                                     | 57.38%                                                             | 21.43%                                                             | N/A                          | N/A                             | N/A                           |
| Credo Group                                                                     | 20.58%                                                             | 46.43%                                                             | N/A                          | N/A                             | N/A                           |
| KBL Luxembourg                                                                  | 13.39%                                                             | 7.14%                                                              | N/A                          | N/A                             | N/A                           |
| Bank of Julius Baer Group                                                       | 3.93%                                                              | 3.57%                                                              | N/A                          | N/A                             | N/A                           |
| Barclays                                                                        | 2.42%                                                              | 10.71%                                                             | N/A                          | N/A                             | N/A                           |

#### Execution Factors – Debt Instruments – Bonds:

- Price
- Costs
- Speed
- Market impact

Sovereign debt instruments are typically more liquid and thus our execution approach resembles that for the most liquid equities – where price, cost and speed are the most important execution factors. Corporate debt instruments are typically traded off-exchange and are thus less liquid. Our execution approach resembles that of less liquid equities, where the emphasis is on the size and nature of the order and the market impact.

| Class of Instrument:                                                            |                                                                    | (c) Exchange Traded Products (Exchange traded funds, exchange traded notes and exchange traded commodities) |                              |                                 |                               |
|---------------------------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------|---------------------------------|-------------------------------|
| Notification if <1 average trade per business day in the 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 percentage of total in that class                                          | Percentage of passive orders | Percentage of aggressive orders | Percentage of directed orders |
| Lyford Bank                                                                     | 36.87%                                                             | 12.28%                                                                                                      | N/A                          | N/A                             | N/A                           |
| Credo                                                                           | 26.53%                                                             | 59.65%                                                                                                      | N/A                          | N/A                             | N/A                           |
| KBL Luxembourg                                                                  | 24.14%                                                             | 7.02%                                                                                                       | N/A                          | N/A                             | N/A                           |
| Jefferies                                                                       | 9.74%                                                              | 8.77%                                                                                                       | N/A                          | N/A                             | N/A                           |
| Bank of Julius Baer Group                                                       | 2.25%                                                              | 1.75%                                                                                                       | N/A                          | N/A                             | N/A                           |

**Execution Factors – Exchange Traded Products (Exchange traded funds, exchange traded notes and exchange traded commodities):**

- Price
- Costs
- Speed
- Other implicit transaction costs

For Exchange Traded Funds, liquidity is not an issue, so the most important factors are execution price, costs and speed. For closed-ended funds, or investment trusts, we promote the broader factors pertaining to the market impact of the order.