

CHARLES
STANLEY▲

Order Execution Quality Report - 2018



Focusing on you

Markets in financial instruments directive (MIFID) - RTS 28 reporting

In accordance with MIFID legislation, Charles Stanley is pleased to present its public summary of its top five execution venues, in terms of trading volumes, for 2018. Information is provided for each class of financial instrument. We also provide our assessment of the overall quality of the execution obtained for our clients over the same period.

Good client outcomes have always been a priority for Charles Stanley. Order execution is something we have always striven to do well and we go to great lengths to ensure we meet our obligations when executing client orders. We understand that clients rely on us to protect their interests in relation to pricing and other parameters of a transaction. We use a large network of traditional market counterparties and embrace new execution venues and methods of dealing where we believe these can improve our execution performance.

Our dealing team works in accordance with our Order Execution Policy and there is rigorous oversight of their activities. Comprehensive summaries of this policy are available from the Charles Stanley and Charles Stanley Direct websites. Some of the key elements and other explanatory notes are included in the report.

A. PERFORMANCE SUMMARY

Separate performance statistics for Charles Stanley and Charles Stanley Direct are available for 2018. Charles Stanley and Charles Stanley Direct have separate order execution policies and Charles Stanley clients have access to a greater number of markets and security types than clients of Charles Stanley Direct. We measure performance by assessing the percentage of client trades that beat or meet the benchmark price provided by our data provider LiquidMetrix (see section G below).

Better than or equal to benchmark

- Charles Stanley 92.88% - 76.20% beat benchmark, 16.68% equalled
- Charles Stanley Direct 93.13% - 76.01% beat benchmark, 17.12% equalled

Worse than benchmark

- Charles Stanley 0.81%
- Charles Stanley Direct 0.57%

The reasons why a client order may have failed to beat or equal the best available price are as follows:

- (a) a better price on an execution venue to which Charles Stanley does not have access;
- (b) trade time discrepancies (for example, in overseas stocks);
- (c) non-standard settlement; or
- (d) misleading benchmarks or input error.

During 2018 there were two occasions where it was deemed that we had not met our best execution obligations to clients, resulting in a total of £406 being refunded.

Non-benchmarked

There is not a benchmark for all trades. The proportion of trades for which there was no benchmark was:

- Charles Stanley 6.31%
- Charles Stanley Direct 6.31%

There are several reasons why a benchmark may not be available for a particular client order:

- (a) the trade occurred at a time when there was no continuous trading on a lit venue (i.e. before or after a market open or close);
- (b) the trade occurred at a time when continuous trading was suspended on the main market, or whilst that market was in auction mode, or there was insufficient volume on a lit venue to execute a trade fully; or
- (c) no lit venue had sufficient volume to execute fully the size of the trade.

Non-benchmarked trades are sample tested to ensure that the price we achieve for clients is in line with the prevailing market price.

B. EXECUTION FACTORS

When executing client orders, we take into account the following execution factors:

- (i) **Price:** for most liquid instruments, market price will be the overriding factor in attaining best execution. Price is likely to be the main execution factor for Retail Client orders; however, this might not always be the case. For example, associated costs of dealing on a particular execution venue might mean that the total consideration is excessively impacted. In such circumstances, costs rather than price could be the overriding execution factor.
- (ii) **Costs:** where particular execution venues carry additional charges (such as exchange fees or settlement/custody costs) that would have an excessive adverse impact on the total consideration for a client order (for example, the cumulative cost of many small trades on an order book), then this could become the most important factor for us to consider. In some circumstances, for example where there are overseas brokerage commissions, other costs might be the most important factor. We may consider that the potential for a large Order to move the market, or the possibility that a request for an electronic quote might not be forthcoming, are grounds for considering lower cost as being of higher importance than other execution factors.
- (iii) **Speed:** similarly, the speed of execution could be important for some types of Order or client. Speed will be a high priority for a Retail Client executing an order in liquid (frequently traded) shares in a fast-moving market.
- (iv) **Likelihood of execution and settlement:** in some instances, our ability to execute the Order at all will be the primary factor to be considered. Where, for example, the Financial Instrument is illiquid (rarely traded) or the size of the Order is unusually large compared to normal trading volumes, our ability to actually execute the Order at all might take precedence over other execution factors. Application of the "total consideration" requirement (please see below for more information) may mean that this factor is given precedence over the immediate apparent price of a Financial Instrument where this will – in our opinion – deliver a better overall result for the client.
- (v) **Size and nature of the Order:** the best price in a market is usually represented by the opportunity to trade in a particular size (number of shares or units), which might not match the size of the client's Order. Where the Order is bigger than the typical quoted size, then the part of the Order executed over and above the threshold, or the terms offered for the whole Order, could only be available at a less favourable price. There are various strategies for trading large Orders and we will exercise our discretion where there is no other instruction from the client. Large or illiquid orders may be executed on a manual basis using the negotiating skills of our Dealing team. In such cases, our dealers will source the best available terms by comparing the prices offered by a variety of execution venues (including other firms, Direct Market Access (DMA) and Multilateral Trading Facilities (MTFs)). This may require us to execute Orders over the course of a day, or a number of days, with the overall Order execution being expressed as an average price of all the individual execution fills carried out on a particular day.
- (vi) **Any other consideration relevant to the execution of the Order:** we will take into account any other execution factor relevant to the Order that we believe warrants consideration in terms of how that Order should be executed. This could be simply whether it is a buy or sell Order, the imposition of price limits, non-standard settlement, whether it is part of a contingent Order, or whether the security is dealt in another market.

C. RELATIONSHIPS WITH EXECUTION VENUES

When carrying out Orders on a Regulated Market, Multilateral Trading Facility, Organised Trading Facility - referred to collectively as Trading Venues - or Systematic Internaliser or (when appropriate) as a transmitter of orders, we select the Execution Venue that we consider the most appropriate. The Execution Venue might be the Trading Venue itself, or a member firm of the Trading Venue. For Retail Clients, decisions are made with the sole objective of producing the best client outcome in terms of total consideration.

Charles Stanley does not:

- have any close links, conflicts of interest or common ownership with any execution venues. Charles Stanley is a member or participant of the London Stock Exchange, NEX Exchange and Bloomberg MTF.
- receive any payments or non-monetary benefits for directing trades to a specific venue. Discounts can be given by Trading Venues once certain volume or value thresholds are met. During 2018, all direct Regulated Markets costs were borne by Charles Stanley. Direct Market Access (DMA) costs were passed to clients as an extra charge on contract notes.
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D. EXECUTION VENUES USED

To ensure the best possible coverage in the asset classes in which we transact our clients business, Charles Stanley retains a comprehensive list of Execution Venues, which can be viewed on the Charles Stanley website alongside our Order Execution Summary.

2018 was a year of refinement rather than of significant change to our Execution Venue list; however:

- (i) with consideration of MiFID II requirements and increased use of Direct Market Access (DMA) for larger transactions, we relinquished our membership of Cboe Europe Equities
- (ii) we reviewed and updated the parameters of our automated system that polls Retail Service Providers (RSPs) to ensure maximum performance
- (iii) reviewed our RSPs' connections to ensure maximum coverage
- (iv) as result of an existing Execution Venue leaving London, moved our Far East business to another Venue
- (v) we added venues to strengthen coverage in the fixed income and ETF space

The financial strength and performance of our execution venues is regularly monitored to ensure they deliver best execution for our clients

E. CLIENT CATEGORISATION

It is the position at Charles Stanley that all our clients - both Retail and Professional - are legitimately relying on Charles Stanley to obtain the best outcome for their Orders, since our relationship is always on an agent/client basis. We do not deal as "principal" against our clients' Orders, including for any riskless principal trades, which are also conducted on an agency basis for our clients. We therefore regard best execution as an obligation that extends to all our clients.

F. EXECUTION CRITERIA

The execution criteria that we take into account are the characteristics of:

- (i) the Client;
- (ii) the Order;
- (iii) the Financial Instruments that are subject of that Order; and
- (iv) the Execution Venues to which that Order can be directed.

We have already covered the execution factors that we consider and their relative importance in section B. However, for Retail Clients, the best possible result is determined in terms of the total consideration, representing the price of the Financial Instrument together with the costs related to execution (including Charles Stanley's charges). Speed, likelihood of execution and settlement, the size and nature of the Order, market impact and any other implicit transaction costs are given precedence over the immediate price and cost consideration only if they are instrumental in delivering the best possible result in terms of the total consideration to our clients.

G. MEASURING BEST EXECUTION

Charles Stanley uses IFS LiquidMetrix to analyse execution performance. IFS LiquidMetrix is based in London and its expertise is in financial market data research and execution quality analysis. IFS developed the LiquidMetrix suite of services, which is focused on execution quality assessment and transaction cost analysis.

To monitor and measure execution performance, LiquidMetrix benchmarks all Charles Stanley client orders against the leading venues where there was an executable price at the time of trade. Larger transactions that are worked over a period of time are reviewed internally against other metrics, such as the volume weighted average price (VWAP). Consideration is given to any strategy employed or any client specific instructions concerning the execution of an order.

LiquidMetrix provides a daily report highlighting any trade that appears to have fallen short of the best available price. This report is scrutinised by the dealing and compliance departments, with any perceived deficiencies investigated and remedied if necessary. Additional reports are drawn from market data suppliers or DMA systems as necessary to support the review process. Overall Best Execution performance is reviewed and minuted at a weekly meeting of senior Charles Stanley managers. Our aim is to ensure that best execution is delivered to our clients on a consistent basis and in accordance with the nature of the order.

As at the date of this report, there is no 'consolidated tape' showing a comprehensive list of transactions across all venues. Consequently, as with other firms during the reporting period, Charles Stanley did not use the output of a consolidated tape provider.

H. SUMMARY OF BEST EXECUTION ANALYSIS

As explained in the introduction to this report, MiFID requires Charles Stanley to publish tables on an annual basis, which detail the top five execution venues in terms of trading volumes for all executed client orders, split by class of financial instrument and by retail and professional client. We are also required to differentiate between orders executed using our own venue memberships and orders transmitted to a specialist counterparty for execution on our clients' behalf.

The overall analysis of 2018 performance is consistent with our expectations, based on our ongoing monitoring throughout the year.

Charles Stanley is a predominantly retail investment management business that also has a significant digital execution-only presence via the Charles Stanley Direct service. These distinct business streams necessarily employ differing procedures when meeting their best execution responsibilities, whilst still adhering to the Charles Stanley Order Execution Policy. For this reason, the data tables for Charles Stanley and Charles Stanley Direct are published separately.

I. COUNTERPARTIES

Charles Stanley and Charles Stanley Direct retain a broad list of venues, ensuring best possible coverage and access to sector specialists. LiquidMetrix produces comparison data that allows us to compare the execution quality of these venues and counterparties. Whilst there is inevitably some variation, depending on the nature of the business executed, compared to the overall rate at which we beat the benchmark (76.15%), our mainstream counterparties perform at a higher level, beating the benchmark on an average 79% of occasions. Venue performance is monitored and any perceived weakness investigated.

- (i) **Shares & Depositary Receipts:** The top five counterparties are what we would expect them to be for Charles Stanley and Charles Stanley Direct and are arguably the preeminent mainstream venues within Charles Stanley's market segment.
- (ii) **Exchange Traded Funds:** Charles Stanley uses a wide selection of specialist venues for the execution of exchange traded fund orders, connecting via retail service providers (RSPs) for smaller retail business, or utilising the Bloomberg MTF request for quote facility for larger transactions. The top five venues for retail, professional and Charles Stanley Direct flow mirror our expectations.
- (iii) **Debt instruments and Bonds:** For the execution of larger business, Charles Stanley traditionally interacts via the Bloomberg MTF or transmits to specialist venues when better outcomes can be achieved. Retail orders (those typically less than £25k) are usually executed with Retail market makers.

J. TRANSMITTED BUSINESS

For 2018, we provide a breakdown of our execution venues where orders have been transmitted. There are financial markets, overseas markets for example, where we do not have direct memberships. For certain larger or complex orders, even where we do have trading venue membership, such as the London Stock Exchange or Bloomberg MTF, a better outcome can sometimes be achieved by transmitting to a third party that has access to a still wider selection of venues and often, in the case of equity markets, smart execution strategies.

K. CONSOLIDATED TOP 5 VENUE STATISTICS

Within MiFID II, Regulatory Technical Standard 28 dictates that venue statistics must be published using a prescribed template, in a machine-readable format. Whilst following these requirements (see the separately published tables) we realise that this prescribed format is not particularly user-friendly for our clients. Therefore, we have additionally published below a limited, simplified overview of the main market sectors so that our clients can more easily view the main venues to which Charles Stanley directs its client orders. This year the regulation stipulates that Shares and Depositary Receipts should be split into three categories. Tick size band 1 and 2, bands 3 and 4 and bands 5 and 6. Tick size is the minimum price movement a security can move. MiFID II introduced harmonisation of tick sizes across Europe. Factors considered when determining bands, include liquidity profile based on the adjusted average daily number of transactions on the most liquid. European Market and price. Shares & Depositary Receipts in in tick size bands 5 and 6 have greater turnover and are more liquid with smaller tick sizes. Instruments in bands 1 & 2 the least liquid.

At Charles Stanley we direct our orders to a wide range of market participants because our dealers and electronic dealing systems search for the best price for each client order rather than trading on the basis of historic relationships. This is evidenced by significant changes in the top venues in the major categories compared to last year.

Charles Stanley (excluding Charles Stanley Direct)

Security Type	Client Category	Execution or Transmission*	Venue 1	% Vol	% Orders	Venue 2	% Vol	% Orders	Venue 3	% Vol	% Orders	Venue 4	% Vol	% Orders	Venue 5	% Vol	% Orders
Shares & Depositary Receipts T1&2	Retail	Execution	Winterflood	26.59	30.85	Peel Hunt	11.93	16.77	Cantor	11.47	12.27	Numis	7.91	5.55	Canaccord	6.57	6.67
Shares & Depositary Receipts T1&2	Professional	Execution	Winterflood	19.29	25.94	Cantor	14.56	14.87	Numis	12.43	6.53	Cenkos	8.01	4.46	Stockdale	7.97	3.57
Shares & Depositary Receipts T3&4	Retail	Execution	Peel Hunt	18.35	28.2	Winterflood	17.86	27.43	Investec	15.08	6.28	LSE	8.12	3.59	Canaccord	6.51	6.14
Shares & Depositary Receipts T3&4	Professional	Execution	Winterflood	20.19	25.19	Cenkos	12.71	6.67	Peel Hunt	11.24	22.83	JPM	10.66	7.7	Numis	9.75	6.05
Shares & Depositary Receipts T5&6	Retail	Execution	Investec	24.75	9.2	Peel Hunt	23.02	26.7	Winterflood	19.05	40.86	Virtu	8.23	6.6	Jefferies	6.32	4.24
Shares & Depositary Receipts T5&6	Professional	Execution	Investec	26.3	10.71	Peel Hunt	20.35	28.28	LSE	12.94	4.29	Winterflood	11.7	32.82	Virtu	9.26	7.7
Exchange Traded Products	Retail	Execution	Winterflood	23.23	33.26	RBC	18.36	23.82	Peel Hunt	12.96	12.31	Bloomberg MTF	12.74	0.33	Flow Traders	12.04	6.57
Exchange Traded Products	Professional	Execution	Bloomberg MTF	27.17	3.11	Winterflood	13.44	35.97	LSE	12.05	1.61	RBC	11.79	22.7	Flow Traders	10.25	6.53
Debt Instruments, Bonds	Retail	Execution	RBS	14.87	7.86	Barclays	12.98	5.89	Winterflood Gilts	11.91	41.77	JPM	9.39	4.56	Winterflood	8.63	9.98
Debt Instruments, Bonds	Professional	Execution	Barclays	32.79	12.59	JPM	27.78	9.63	RBS	20.96	16.3	Winterflood Gilts	14.9	11.11	Winterflood	1.43	13.34
Shares & Depositary Receipts T1&2	Retail	Transmission	KCG	71.95	74.82	Barclays	9.63	3.2	Winterflood	9.18	13.55	Yuanta	7.83	6.67	Mizuho	0.95	1.49
Shares & Depositary Receipts T1&2	Professional	Transmission	KCG	68.33	70.24	Barclays	11.19	4.76	Yuanta	10.71	13.1	Winterflood	9.63	10.71	Mizuho	0.14	1.19
Shares & Depositary Receipts T3&4	Retail	Transmission	KCG	50.28	69.7	Barclays	23.32	6.06	Winterflood	17.36	19.18	Virtu	6.76	0.57	Yuanta	2.03	4.06
Shares & Depositary Receipts T3&4	Professional	Transmission	KCG	31.01	54.67	Barclays	29.41	9.33	Winterflood	26.25	33.33	Mizuho	13.33	2.67			
Shares & Depositary Receipts T5&6	Retail	Transmission	KCG	45.14	59.64	Winterflood	26.31	38.15	Barclays	18.07	1.57	Virtu	10.41	0.52	Yuanta	0.04	0.07
Shares & Depositary Receipts T5&6	Professional	Transmission	Virtu	42.2	6.41	KCG	23.95	58.97	Winterflood	17.54	29.49	Barclays	16.31	5.13			

Exchange Traded Products	Retail	Transmission	KCG	68.39	59.02	Winterflood	29.7	39.75	Winterflood Gilts	1.71	0.82	Yuanta	0.2	0.41			
Exchange Traded Products	Professional	Transmission	KCG	81.48	75.61	Winterflood	18.47	23.17	RBC	0.05	1.22						
Debt Instruments, Bonds	Retail	Transmission	RBC	33.59	13.24	Bridport	31.91	24.02	Canaccord	15.44	35.29	Winterflood	12	8.82	Cantor	2.6	11.28
Debt Instruments, Bonds	Professional	Transmission	RBC	71.16	66.67	Bridport	28.23	22.22	Canaccord	0.61	11.11						

Charles Stanley Direct

Security Type	Client Category	Execution or Transmission*	Venue 1	% Vol	% Orders	Venue 2	% Vol	% Orders	Venue 3	% Vol	% Orders	Venue 4	% Vol	% Orders	Venue 5	% Vol	% Orders
Shares & Depositary Receipts T1&2	Retail	Execution	Winterflood	31.80	36.90	Peel Hunt	20.15	20.45	Cantor	13.18	13.16	Canaccord	5.75	4.13	Shore Capital	4.87	8.30
Shares & Depositary Receipts T3&4	Retail	Execution	Peel Hunt	30.26	30.9	Winterflood	22.88	35.49	Investec	9.26	5	Numis	6.17	2.42	Shore Capital	5.35	6.91
Shares & Depositary Receipts T5&6	Retail	Execution	Peel Hunt	30.43	26.4	Winterflood	22.46	36.37	Investec	18.35	14.16	Virtu	9.76	9.12	Shore Capital	7.19	4.94
Exchange Traded Products	Retail	Execution	RBC	39.23	41.15	Winterflood	23.12	33.59	Peel Hunt	21.41	13.91	Flow Traders	6.92	2.56	Stifel Nicolaus	6.11	5.25
Debt Instruments, Bonds	Retail	Execution	Winterflood	36.42	60.22	Barclays	19.02	0.67	Peel Hunt	12.72	22	Canaccord	7.56	6.44	Morgan Stanley	7.45	0.67
Shares & Depositary Receipts T1&2	Retail	Transmission	KCG	77.42	70.07	Wins	12.94	21.43	Yuanta	4.26	5.44	Barclays	2.15	1.70	Mizuho	1.92	1.02
Shares & Depositary Receipts T3&4	Retail	Transmission	KCG	85.34	85.5	Wins	12.13	12.27	Yuanta	2.06	1.86	Barclays	0.47	0.37			
Shares & Depositary Receipts T5&6	Retail	Transmission	KCG	79.78	82.31	Winterflood	18.19	17.31	Barclays	2.03	0.38						
Exchange Traded Products	Retail	Transmission	Wins	63.88	50	KCG	36.12	50									
Debt Instruments, Bonds	Retail	Transmission	Canaccord	93.52	85.71	Bridport	6.48	14.29									



LONDON (HEAD OFFICE)

Charles Stanley & Co. Limited
55 Bishopsgate
London, EC2N 3AS

T | 020 7739 8200
www.charles-stanley.co.uk

OTHER UK OFFICES

Aberdeen	Guildford
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