

CHARLES
STANLEY▲

Order Execution Quality Report - 2019

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 2019. 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 2019. Charles Stanley and Charles Stanley Direct have separate order execution policies because 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).

2019 execution performance relative to benchmark	% better than benchmark	% equal to benchmark	% worse than benchmark	% non-benchmarked
Charles Stanley	82.55%	9.87%	0.87%	6.71%
Charles Stanley Direct	80.02%	12.68%	0.70%	6.60%

2018 execution performance relative to benchmark	% better than benchmark	% equal to benchmark	% worse than benchmark	% non-benchmarked
Charles Stanley	76.20%	16.68%	0.81%	6.31%
Charles Stanley Direct	76.00%	17.12%	0.57%	6.31%

As can be seen, the proportion of trades that were better than benchmark showed a marked improvement from 2018. This was matched by a corresponding decline in the proportion of trades that matched the benchmark. The worse and non-benchmarked figures remained broadly similar

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

- a better price was available on an execution venue to which Charles Stanley does not have access
- small trade time discrepancies (for example, in overseas orders)
- non-standard settlement
- misleading benchmarks or input error

The reasons why a benchmark may not be available for a client order are as follows:

- 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)
- the trade occurred at a time when continuous trading was suspended on the main market, or whilst that market was in auction mode
- there was insufficient volume available to execute the full 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 at that time.

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 actually to 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 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 2019, 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.

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. 2019 was a year of continued refinement rather than of significant change to our Execution Venue list; however:

- (i) with ongoing consideration of MiFID II requirements, we have continued to increase the use of Direct Market Access (DMA) and, when appropriate, transmission of client orders;
- (ii) we monitored and refined the parameters of our automated system that polls Retail Service Providers (RSPs) to ensure optimum performance;
- (iii) we monitored our RSP connections to ensure maximum coverage and performance. The overall number of connections has remained broadly similar to 2018; and
- (iv) there have been instances where certain specialist teams have moved to alternate Execution Venues which can result in the importance of the relevant Venues changing. We continue to monitor the impact and relevance of any such changes

The financial strength and performance of our Execution Venues is monitored to ensure they continue to 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 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 are the nature 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 A. 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 ISS LiquidMetrix to analyse execution performance. ISS LiquidMetrix is based in London and its expertise is in financial market data research and execution quality analysis. They are a market leader in the field and allow Charles Stanley to monitor accurately the performance of our dealing team.

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 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 2019 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 each's 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 trading venues. We aim to have the best possible coverage, including access to sector specialists, to ensure we can access the most competitive dealing prices. LiquidMetrix produces comparison data that allows us to compare the execution quality of these venues and counterparties. There is inevitably some variation in the performance of our counterparties depending on the nature of the business executed. The percentage of Charles Stanley and Charles Stanley Direct client orders that beat the benchmark improved in 2019 to in excess of 80% of all trades. This demonstrates that our main counterparties perform at a high level and consistently deliver best execution for clients.

- (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 larger trades Charles Stanley deals mainly via the Bloomberg MTF to execute with the large Investment Banks that feature in the bond tables. Occasionally, when there is no liquidity via Bloomberg, we transmit to specialist venues where better outcomes can be achieved. Retail orders (those typically less than £25k) are usually executed with retail market makers.

J. TRANSMITTED BUSINESS

There are financial markets, overseas markets for example, where we do not have direct access. For such orders and certain larger or complex domestic orders, 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. 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 tick size bands 5 and 6 have greater turnover and are more liquid with smaller tick sizes. Instruments in bands 1 & 2 are the least liquid.

The RTS 28 tables demonstrate that at Charles Stanley we direct our orders to a wide range of market participants as 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 the changes in the top 5 venues in the major categories from year to 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	20.76	28.21	Peel Hunt	10.28	18.32	Numis	8.96	5.87	Cantor	8.82	9.72	N+1 Singer	6.45	5.56
Shares & Depositary Receipts T1&2	Professional	Execution	Winterflood	19.63	22.26	Cantor	12.07	10.78	Shore Capital	11.67	7.75	Peel Hunt	9.39	18.91	JP Morgan	9.35	5.09
Shares & Depositary Receipts T3&4	Retail	Execution	Winterflood	19.72	26.95	Peel Hunt	16.1	30.59	Investec	12.15	6.43	Numis	11.95	8.76	Jefferies	6.27	3.82
Shares & Depositary Receipts T3&4	Professional	Execution	Winterflood	23.87	25.24	Numis	14.48	10.00	Peel Hunt	12.89	26.11	JP Morgan	12.25	7.90	Cenkos	9.18	6.47
Shares & Depositary Receipts T5&6	Retail	Execution	Investec	31.43	7.88	Winterflood	25.12	47.34	Peel Hunt	19.98	25.66	Jefferies	5.61	1.91	Shore Capital	3.75	5.27
Shares & Depositary Receipts T5&6	Professional	Execution	Investec	28.19	10.08	Peel Hunt	21.74	29.97	Winterflood	17.59	38.65	LSE	8.64	2.48	Jefferies	6.87	2.84
Exchange Traded Products	Retail	Execution	Bloomberg MTF	25.27	0.65	RBC	20.02	42.91	Stifel Nicolaus	8.76	13.14	Peel Hunt	7.84	11.24	Commerzbank	7.56	3.12
Exchange Traded Products	Professional	Execution	Bloomberg MTF	56.86	3.16	Winterflood	9.58	39.93	RBC	6.47	16.75	Stifel Nicolaus	5.89	16.39	Citigroup	5.20	0.47
Debt Instruments, Bonds	Retail	Execution	Barclays	22.43	6.48	Natwest	9.70	4.38	JP Morgan	8.87	4.61	Barclays	7.80	0.83	RBC	6.92	0.30
Debt Instruments, Bonds	Professional	Execution	RBC	21.13	2.44	Barclays	20.67	9.76	JP Morgan	19.21	9.76	NatWest	15.50	8.94	Morgan Stanley	11.71	17.07
Shares & Depositary Receipts T1&2	Retail	Transmission	KCG	71.01	72.88	Mizuho	10.31	9.78	Barclays	8.40	8.34	Winterflood	3.61	6.36	Finncap	3.17	0.60
Shares & Depositary Receipts T1&2	Professional	Transmission	KCG	57.84	76.24	Barclays	14.36	7.92	Winterflood	13.36	9.90	Finncap	7.81	0.49	Mizuho	6.63	5.45
Shares & Depositary Receipts T3&4	Retail	Transmission	Barclays	71.75	17.26	KCG	22.34	66.28	Winterflood	5.10	15.14	Virtu	0.57	0.51	Mizuho	0.24	0.81
Shares & Depositary Receipts T3&4	Professional	Transmission	KCG	51.14	59.84	Winterflood	34.94	37.01	Barclays	13.92	3.15						
Shares & Depositary Receipts T5&6	Retail	Transmission	KCG	53.76	76.40	Barclays	36.92	8.60	Winterflood	7.82	13.85	Virtu	1.50	1.14	Mizuho	0.00	0.01
Shares & Depositary Receipts T5&6	Professional	Transmission	KCG	61.73	92.56	Barclays	30.57	3.72	Winterflood	7.29	2.89	Virtu	0.41	0.83			

Exchange Traded Products	Retail	Transmission	KCG	57.58	76.97	Winterflood	31.11	13.33	RBC	6.60	3.64	Barclays	4.71	6.06			
Exchange Traded Products	Professional	Transmission	KCG	70.94	65.71	Barclays	15.56	11.43	Winterflood	13.5	22.86						
Debt Instruments, Bonds	Retail	Transmission	RBC	40.63	9.78	Bridport	22.77	18.05	ICAP	14.78	21.81	Canaccord	9.20	31.58	Cantor	5.36	5.26
Debt Instruments, Bonds	Professional	Transmission	RBC	66.77	66.67	Bridport	33.23	33.33									

Charles Stanley Direct

Security	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
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 & Depository Receipts T1&2	Retail	Execution	Winterflood	27.36	31.52	Peel Hunt	18.17	18.46	Cantor	9.01	9.74	N+1 Singer	7.52	8.30	Numis	6.78	3.93
Shares & Depository Receipts T3&4	Retail	Execution	Peel Hunt	31.72	29.91	Winterflood	23.78	33.56	Numis	7.79	5.16	Investec	6.67	4.14	Shore Capital	4.75	6.34
Shares & Depository Receipts T5&6	Retail	Execution	Peel Hunt	33.01	26.65	Winterflood	26.77	40.60	Investec	12.12	7.49	Jefferies	6.94	2.47	Shore Capital	6.58	6.37
Exchange Traded Products	Retail	Execution	RBC	34.15	39.31	Stifel Nicolaus	18.32	15.30	Peel Hunt	18.00	10.82	Winterflood	16.61	22.29	Investec	5.34	6.75
Debt Instruments, Bonds	Retail	Execution	Winterflood	49.24	57.33	Virtu	10.74	21.12	Morgan Stanley	9.66	0.86	Flow Traders	9.23	4.02	Peel Hunt	8.87	10.35
Shares & Depository Receipts T1&2	Retail	Transmission	KCG	85.56	86.28	Barclays	8.53	6.27	Winterflood	3.96	3.14	Mizuho	1.95	4.31			
Shares & Depository Receipts T3&4	Retail	Transmission	KCG	85.87	91.93	Winterflood	7.77	5.83	Barclays	6.36	2.24						
Shares & Depository Receipts T5&6	Retail	Transmission	KCG	90.68	87.48	Winterflood	6.85	9.28	Barclays	1.61	1.91	Virtu	0.86	1.33			
Exchange Traded Products	Retail	Transmission	KCG	86.46	85.71	Barclays	13.54	14.29									
Debt Instruments, Bonds	Retail	Transmission	Canaccord	47.52	40.00	RBC	38.91	20.00	Cantor Fitzgerald	6.18	10.00	Mizuho	4.18	10.00	Bridport	2.66	10.00



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