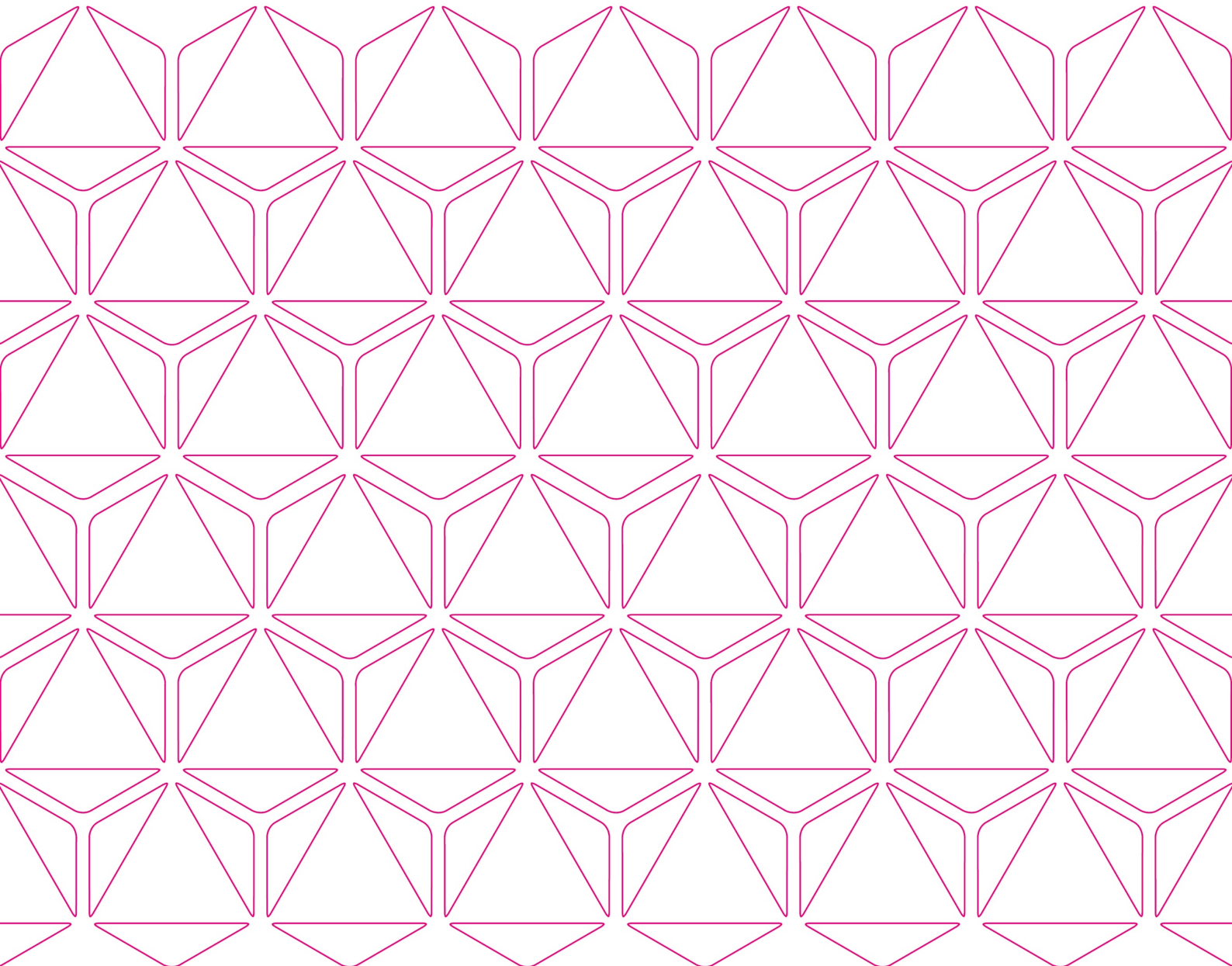


MiFID II Execution Quality



Annual Report

April 2018



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1. RTS 28 REPORTING UNDER MIFID II – 18/2

Introduction

MiFID II regulation introduced a requirement for Investment firms who execute orders on behalf of clients or acting to conclude agreements to buy or sell one or more MiFID financial instruments on behalf of clients to publish quantitative and qualitative details of their top five brokers and execution venues (“RTS 28 Disclosures”).

As this is the first report to be published by Praemium to satisfy the new regulations the start of this document will give background information as to why this report is being published.

What is the regulatory rationale behind RTS 28?

The obligations underpinning RTS 28 disclosure are formulated with investor protection being at the centre of the European Securities and Markets Authority (ESMA) objective in maintaining fair and transparent markets, as well as the inherent need for investors to have access to more, rather than less information prior to making investment decisions.

The FCA rules in the Conduct of Business Sourcebook, Chapter 11 support these objectives:

(<https://www.handbook.fca.org.uk/handbook/COBS/11/Annex1EU.html>).

Which activities trigger the requirement?

Direct order execution

Under the MiFID II Level 1 Directive, firms that directly execute client orders must 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 it executed client orders in the preceding year, together with information on the quality of execution obtained (Article 27(6) of MiFID II). The FCA implemented this rule in COBS 11.2A.39R.

Passing orders to another firm for execution (indirect execution)

Under the MiFID II Level 2 Delegated Regulation (2017/565), portfolio managers placing orders with other entities for execution, and firms providing the service of reception and transmission of orders, are subject to an equivalent rule to the above. When a firm selects another to provide order execution services, it must summarise and make public, on an annual basis, for each class of financial instruments, the top five investment firms in terms of trading volumes where it transmitted or placed client orders for execution in the preceding year and information on the quality of execution obtained (Article 65(6) of the Delegated Regulation).

Note: Praemium does not execute on an exchange, please refer to the Dealing Partners section below for further details.

What must the report contain?

The report firms must publish has both quantitative and qualitative elements. Firms must gather data for each sub-class of MiFID financial instruments on their trading volumes with different counterparties and on different venues.

A “venue” for the purposes of RTS 28 includes exchanges, multilateral trading facilities (MTFs), organised trading facilities (OTFs), systematic internalisers, market makers and other liquidity providers with whom the firm has traded directly (for example, as OTC counterparties).

In respect of RTS 28 Disclosures, the volume of execution and number of executed orders should be expressed as a percentage of a firm’s total execution volume and a percentage of the number of executed orders in that subclass of financial instrument – absolute values are not necessary.

If the firm has professional clients and retail clients, then the firm is required to separate out its professional and retail client business and to produce a separate Venue Report and a separate Broker Report per instrument sub-class for each client type.

Quantitative disclosure:

There is a prescribed template for the quantitative element disclosure, as set out in ESMA's Annex II of RTS 28.

The quantitative element of the report requires a firm to list, for each of the sub-classes of financial instruments:

- in respect of direct execution, its top five execution venues in terms of trading volumes for transactions that the firm has executed during 2017, including orders executed directly on a trading venue (i.e. as a member of or participant); or on an OTC basis directly with a counterparty (this would take the form of a "Venue Report"); and
- in respect of indirect execution, its top five brokers in terms of trading volumes for all transactions during 2017 resulting from placing orders with, or transmitting orders to, another entity (e.g. a broker) for that other entity to execute on the firm's behalf (the "Broker Report").

Qualitative disclosure:

Firms can choose their own template for their qualitative disclosures as there is no prescribed format for such.

In terms of content, qualitative disclosure requires firms, for the previous year and each class of financial instrument, to produce a summary of the conclusions drawn from data gathered on the execution quality obtained from execution venues or brokers.

Firms must provide an explanation, based on the data on quality of execution obtained, that justifies why the relevant brokers/venues constitute the top 5. The qualitative element must also disclose any close links or conflicts of interests between the firm and the relevant venues/brokers reported in the top 5.

How should the RTS 28 Report be published?

Reports must be available to the public without any charges, and not be placed behind a firewall, registration page or be subject to password encryption or other restrictions. The quantitative element of the RTS 28 Report must be in machine-readable format (e.g. a CSV file), available for downloading by the public.

Firms are required to maintain the information on their websites for a period of at least two years following publication.

2. Dealing partners

Dealing in equities

Commonly referred to as shares, these instruments represent a share in the capital of a company (including investment trusts and exchange traded funds).

We have appointed Winterflood Securities Limited as our dealing partner to execute orders in shares; they are authorised and regulated by the Financial Conduct Authority (Register Number 141455) and are part of the Close Brothers Group.

Winterflood Securities Limited primarily concentrate on achieving Best Execution using price as the primary measure for achieving this result unless otherwise specifically instructed. Price assumes a higher priority for client orders where the transactions are low in size/value and have minimal market impact.

We receive no payments, research or benefits in kind through our relationship with Winterflood Securities Limited.

Debt Instruments Bonds & Gilts

Debt instruments are issued by public and corporate bodies respectively as a means of raising capital. These instruments have a fixed face value which will be paid to the holder at maturity.

These instruments will pay an income in the form of a coupon which represents a percentage return on the par value. Coupon values may be fixed or index linked. Fixed coupons offer certainty of income, but may fail to keep pace with inflation.

Ordinarily, for fixed income transactions, liquidity and price are the main determining factors for best execution given the nature of the securities, as well as speed of market and size of transaction.

We have appointed Winterflood Securities Limited as our dealing partner to execute orders in Debt instruments; they are authorised and regulated by the Financial Conduct Authority (Register Number 141455) and are part of the Close Brothers Group.

We receive no payments, research or benefits in kind through our relationship with Winterflood Securities Limited.

Dealing in structured products

The majority of orders are placed during the initial launch period for the asset ensuring that we receive the initial launch price. Therefore, orders placed in structured products will be traded directly with the respective issuer.

We receive no payments, research or benefits in kind through our relationship with the structured product issuer.

Best Execution

We take into consideration a range of factors when we place an order for you. These include:

Execution Factor	Detail
Price	Price will be determined with reference to the execution venues our dealing partners connect to and on which the security is traded.
Nature	Consideration will need to be given to the liquidity of the stock at the relevant time. Execution may be heavily influenced by the trading patterns in the stock. These factors plus the size of the order will determine the appropriate execution method whether this is the working of an order into the market place using a volume weighted average price as the benchmark or immediate execution with bid/offer price, for example.
Size	As per nature of the trade, the size of the trade in relation to the liquidity of the stock may have significant influence on the Best Execution process.
Speed	The importance of speed of transaction will vary. For example, to reduce the costs associated with market impact an order might be worked over a day or more.
Cost	Winterflood Securities Limited will incur the exchange trading fees and will not pass them on to Praemium.
Other relevant considerations	Considerations may include the impact of size of order execution on market share price or market conditions and liquidity at the time of execution.
Settlement	Flexible settlement via CREST.
Likelihood of executions	Likelihood of execution is very high due to the liquidity our dealing partners can provide.

Praemium assesses all the above factors to achieve Best Execution. This may not always result in the best available price being obtained, even though it is generally the primary consideration. Other considerations could include the liquidity of the market (which may make it difficult to execute an order), and whether such transactions are executable on a regulated or unregulated market. Our policy in executing each order takes account of its nature, the priorities of the client and the nature of the market in question. Praemium reserves the right to act in a deal as agent collectively for more than one client.

2017 monitoring

2017 saw the introduction of a more frequent best execution meeting (monthly) which feeds into the senior management team meeting and reports to the risk and regulation committee. The annual review of the best execution and review of dealing partners used did not identify any significant issues or items requiring intervention.

Improvements in the amount and quality of best execution management information received increased during the period and further improvements are due to be deployed in 2018.

Winterflood remain the significant MiFID investment firm for our equity and debt instrument trades, achieving best execution on a consistent basis. Winterflood's primary consideration for best execution is price however as they are the largest retail stockbroker in the UK, other best execution factors including speed, liquidity, settlement and cost did not impact Praemium during this period.

Ongoing monitoring

A monthly best execution meeting is held where a specialist third-party reporting tool is used (Liquidmetrix) to monitor that best execution has been achieved. If there are any anomalies these are investigated and reported back to the meeting for any further action to be taken if necessary.

The reports detail the price achieved on the order compared to the benchmark price on that day when compared to a relevant venue. Any trades where this a 0.05% negative deviance from the benchmark are questioned further and reported to the risk and regulation committee.

Where benchmark information is not readily available for example for bonds and gilts, additional information is requested at the time of trade and samples are often selected at the monthly best execution meeting to primarily review the price received, however all best execution factors will be considered.

The effectiveness of our order execution arrangements is monitored on an ongoing basis. We monitor our adherence to the policy and our regulatory obligations in this area through our compliance risk assessment framework and monitoring programme.

3. Client categorisation

Retail clients

Praemium's approach for 'retail clients' is that the best possible result for execution will be determined in terms of the total consideration payable in relation to the execution of the order. The total consideration represents the price of the financial instrument and the costs relating to the execution, including all expenses incurred by the client which are directly related to the execution of the order. This will include venue fees, clearing and settlement fees and any other fees paid to third parties.

Professional clients

Praemium owes Best Execution to 'professional clients' where it can be said that the professional client in question is legitimately relying on us to protect their interests. This will depend on the specific nature of the transaction and we believe this is likely to be the case in most instances. Total consideration paid by the client is also likely to be of relatively high importance when considering Best Execution for professional clients. However, in some circumstances, we may appropriately determine that other execution factors may be of greater importance.

There were no professional client trades in 2017, Praemium categorises all clients as retail clients.

For further information please refer to our Best execution and client order execution policy at <http://www.praemium.co.uk/who-we-are/our-policies-uk> for further information.

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