

Markets in Financial Instruments Directive II (MiFID) – Order Execution Quality reporting (RTS28)

Introduction

The implementation of MiFID II from the 3rd Jan 2018 brought with it new requirements for Investment firms to provide enhanced information to their customers.

One of these is the requirement for firms, who are executing customer orders, to disclose on an annual basis, their top five execution venues for each class of financial instrument in which they have traded in the preceding year. This is expressed in terms of the % of trades to each venue split by Retail and Professional customers.

To accompany these reports firms are required to provide a summary of the analysis and conclusions drawn as part of their execution monitoring processes throughout the year.

AJ Bell Securities Ltd executes business for the AJ Bell group. The top 5 venue reports and this execution summary cover trade execution for all products:

AJ Bell Youinvest

AJ Bell Investcentre

AJ Bell Custody Solutions

AJ Bell Securities Execution only (Institutional customers)

Order Execution Factors

AJ Bell Securities Ltd execute orders in line with the relevant products' Order Execution Policy (details are available on the websites).

We take into account various execution factors to determine how the order is dealt to achieve the best possible outcome:

- **Price** - we will always strive to achieve the most advantageous price for an order and it is usually the highest priority factor in attaining best execution.
- **Costs of the transaction** - when assessing which venue to execute an order on we will take into account any charges which may be passed onto the customer and ensure the total consideration of the order is the best outcome, this may lead to executing the deal at a worse price than the best available. This will be a high priority for securities listed on multiple venues.
- **Speed of execution** - in liquid securities where prices can move quickly, the speed of execution can be the highest priority as delays in the execution process can lead to a detrimental execution price being attained.
- **Likelihood of execution and/or settlement** - for illiquid securities, the likelihood of execution can be the overriding factor in the absence of competing prices from multiple venues. As the majority of orders are executed 'on exchange' this reduces settlement risk due to the settlement rules of the exchange and is therefore low priority in the execution

factors. The priority may increase if competing quotes are retrieved for same security both 'on and off exchange' as the settlement risks increase if trades are executed outside of a regulated exchange.

- **Size, nature and complexity of the order** - the best price displayed on execution venues is for a particular size; orders which are over this size will be executed in line with our processes and we will employ the best strategy we consider would lead to the most advantageous price being attained. Some strategies employed could lead to delays on the execution of the full order given the impact any immediate execution may have on the price.
- In some circumstances other execution factors, including market impact may also be taken into account.

Links with Execution Venues

AJ Bell Securities Ltd is a member or participant of the London Stock Exchange, Aquis Stock Exchange, Bloomberg MTF and Tradeweb MTF.

A J Bell Securities Ltd does not have any close links, conflict of interest or common ownership with any execution venues used nor do we receive any payments or non-monetary benefits for directing trades to a specific venue.

Execution Venues

AJ Bell Securities Ltd has direct execution connections to many execution venues by way of the Retail Service Provider network (RSP). In addition to the RSP, trades can be executed on other 'request for quote' systems namely Bloomberg and Tradeweb, over the telephone directly to the venue or via Direct Market Access providers to route orders onto the relevant Stock Exchange.

A list of the execution venues on which we place significant reliance can be found in the relevant Order Execution Policies.

One venue has been added and one venue removed from our RSP network connections, the removal was due to the venue removing themselves from the network. We continue to maintain a connection to all available RSP providers.

We commenced trading with an additional venue via the Bloomberg request for quote system in both Exchange Traded Products and Fixed income securities to further improve counterparty coverage for these securities.

Due Diligence is performed on any potential new venue before a relationship commences and ongoing exposure levels are monitored on a daily basis.

Client Categorisation

Both Retail and Professional customers are provided 'Best Execution' on all of their orders unless we are specifically requested to execute an order on a particular venue by the customer.

Our execution process is the same for both customer categorisations:

We will attempt to execute all orders via the RSP network in the first instance and a high percentage of Retail customer orders are executed via this channel. As the average size of orders from our Professional customers tends to be higher, a lesser percentage is executed via the RSP network with the balance executed by the Dealing team using the telephone or other 'request for quote' systems.

This explains the difference between the venues used across the Client categorisations.

Execution Criteria

When executing or routing orders we take into account certain criteria for determining the relative importance of the 'execution factors':

- characteristics of the customer
- the characteristics of the order and the security that is the subject of that order
- the execution venues to which that order can be directed

The best possible result is usually determined in terms of the total consideration, representing the price of the instrument together with any related costs of execution (including any product costs) which is passed onto the customer but as explained under the **Order Execution Factors** other factors can take precedence.

Execution Analysis

AJ Bell Securities Ltd uses a third party system supplier to analyse execution performance.

All trade data is sent to them and the execution price is benchmarked against the best price available on the Primary Execution venue for the specific security for the size of the order and execution time of the trade.

Data is returned and analysed on a regular basis and trades with a price outside of the best price available are reviewed, measured against alternative benchmarks (such as the volume weighted average price) dependant on the nature of the trade or specific instructions provided by the customer and to ensure that the Best Execution Policy has been followed.

Any trades which do not meet the required benchmark or where the Best Execution Policy has not been followed which has led to any customer detriment in terms of the 'best outcome for the customer' are reviewed and appropriate action taken.

Execution reports which detail all trades and any actions taken against either an individual trade or a venue/counterparty are documented and reviewed on a monthly basis within our 'Best Execution Forum' whose members consist of the Operations Director, Head of Dealing, the Dealing Manager and the Compliance Manager.

Due to the absence of a 'consolidated tape' which would provide a comprehensive list of transactions across all venues we were unable to use any output to assess execution performance.

Top 5 Venues

As previously detailed AJ Bell Securities Ltd is required to publish our Top 5 Venues to which we have executed business on an annual basis, for each class of financial instrument expressed in terms of the % of trades to each venue split by Retail and Professional customers.

Separate reports are also provided for each customer category where we have 'executed and transmitted' orders. This is where we have routed orders to alternative counterparties for order execution on markets of which we are not members. This constitutes orders on overseas exchanges where the Counterparty will place orders onto the exchange on our behalf where the trades are unable to be executed via the RSP.

Based on our ongoing monitoring throughout the year the results are as expected. Retail and Professional execution venues will differ as the higher average trade size results in fewer orders for Professional Customers executing via the RSP network.

- **Shares and Depository receipts**

The top 5 venues are consistent with levels we have seen throughout the year and are dominated by those that provide the widest market coverage via the RSP network.

- **Exchange Traded Funds**

We use a wide range of specialists for our execution venues in these securities. Orders which are unable to be executed via the RSP network will be executed via the Bloomberg and Tradeweb MTFs or over the telephone. The Top 5 venues are as expected given the differential of venues connected to the RSP network and those available on the MTFs.

- **Debt Securities**

All orders are executed on the Bloomberg MTF or via the telephone. The Top 5 venues reflect this approach and are consistent with our Venue connections via the MTF.

- **Securitised Derivatives/Warrants**

The results are consistent with expectations given the dominance of execution via the RSP providers and the fact Societe Generale manufacture the highest number of securities and are the only counterparty able to trade in their listed securities.

- **Structured Finance Products**

Our venue report highlights the limited trading we do in these securities and the fact they have been for a single product manufacturer

- **Other Instruments**

Our top venues represent the high level of trades we receive in Collective Investment Funds (OEICs and Unit Trusts) and are detailed by the Custodian we have used to place the orders into the requested funds.

Additional Information

- **Directed Orders** - Where a customer specifically requests us to execute their order on a specific venue. The regulation therefore does not consider it to be part of our standard execution process and that it is appropriate therefore for the details to be separately identified.

- **Aggressive and Passive Orders** – This will detail the % of orders either entered onto the order book of an exchange that either took liquidity (aggressive) or provided liquidity (passive). We classify executions on the RSP as taking liquidity, we do not route unexecuted limit orders onto the exchange as they are ‘minded’ within our system and trigger for execution when the limit price has been reached; we therefore also classify these as aggressive. Orders worked in the market via a Market maker are also classified as aggressive as we ourselves have not placed the order onto the order book of an exchange.