

**NEWTON**

Investment  
Management

# QUALITY OF EXECUTION ANNUAL REPORT

Newton Investment Management Limited

Disclosure Period: 1st January 2017 to 31st December 2017

Newton Investment Management Limited (hereafter referred to as “Newton”) is required under the Regulatory Technical Standards set down under the revision to the Markets in Financial Instruments Directive (“MiFID II”) to provide additional disclosures about the execution venues used for each asset class in which it trades for clients and to provide information on the quality of execution on a defined period of trading.

This analysis is based on:

- Delegated Regulation (EU) 2017/576 Recitals 7-13 and Article 3(3); and
- ESMA Q&A: Part 1, Question 10.

All client orders that are created by Newton’s Portfolio Managers are executed centrally by Newton’s Dealing Team. Newton does not have dealing capabilities outside the United Kingdom; therefore no trading desks in different geographical locations are used to execute orders. It therefore follows that no Newton entities will be disclosed in any of our top five venue reports.

Article 3(3): Investment firms shall publish for each class of financial instruments, a summary of the analysis and conclusions they draw from their detailed monitoring of the quality of execution obtained on the execution venues where they executed all client orders in the previous year. Some of this information applies generally across all asset classes in which Newton transacts. The information shall include:

<p>(a) an explanation of the relative importance the firm gave to the execution factors of price, costs, speed, likelihood of execution or any other consideration including qualitative factors when assessing the quality of execution;</p>	<p>The relative importance of each of these factors within Newton’s dealing process will vary depending upon a number of criteria, namely:-</p> <ol style="list-style-type: none"> <li>1. the investment intent of the portfolio manager who created the order;</li> <li>2. the characteristics of financial instruments that are the subject of that order; and</li> <li>3. the characteristics of the execution venues to which that order can be directed</li> </ol> <p>Each client order that is transacted by Newton’s dealers is inherently unique in its characteristics and market conditions are never constant. The relative importance of the execution factors is therefore variable. That said, the particular combination of total consideration (price of the instrument and costs of execution, both implicit and explicit) and size are usually the most considered factors when setting the execution strategy. Where an instrument is less liquid, then likelihood of execution becomes a more important consideration. Another factor relevant to best execution is counterparty risk, particularly in the case of instruments which are not settled by delivery versus payment. Under this scenario, our assessment of credit risk may impact on our selection of who we trade with.</p>
<p>(b) a description of any close links, conflicts of interests, and common ownerships with respect to any execution venues used to execute orders;</p>	<p>Newton does not trade with any affiliates except where mandated to for certain Third Party FX transactions.</p>
<p>(c) a description of any specific arrangements with any execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received;</p>	<p>Newton does not receive payments, discounts, rebates or non-monetary benefits in its trading arrangements.</p>

(d) an explanation of the factors that led to a change in the list of execution venues listed in the firm's execution policy, if such a change occurred;	Brokerage firms remain on Newton's list of execution venues subject to an authorisation and ongoing monitoring process, which includes, but is not limited to, the broker's credit worthiness and financial stability, a review of the performance of execution services provided by the broker, and the broker's ability to trade effectively on our clients' behalf.
(e) an explanation of how order execution differs according to client categorisation, where the firm treats categories of clients differently and where it may affect the order execution arrangements;	Newton only traded on behalf of one category of client where Best Execution was owed during the disclosure period, namely Professional Clients. As such all clients are treated the same.
(f) an explanation of whether other criteria were given precedence over immediate price and cost when executing retail client orders and how these other criteria were instrumental in delivering the best possible result in terms of the total consideration to the client;	This is not applicable, as Newton does not trade retail client orders.
(g) an explanation of how the investment firm has used any data or tools relating to the quality of execution, including any data published under Delegated Regulation (EU) 2017/575 [RTS 27];	Newton has used independent Transaction Cost Analysis (TCA) providers to assist with detailed monitoring of the quality of execution obtained on the execution venues where Newton executed/placed for execution client orders.
(h) where applicable, an explanation of how the investment firm has used output of a consolidated tape provider	This is not applicable, as there are currently no consolidated tape providers in Europe.

## EXECUTION FACTORS: MIFID II DEBT INSTRUMENTS / BONDS

Newton's Order Execution Policy<sup>1</sup> defines the relative importance generally places on the factors considered when executing a fixed income trade. These can vary according to liquidity, urgency and volatility. For 2017 **price** was generally the leading execution factor used for this asset class, followed by **size and likelihood of execution**.

## EXECUTION FACTORS: MIFID II EQUITIES – SHARES & DEPOSITARY RECEIPTS

Newton's Order Execution Policy defines the relative importance generally placed on the factors considered when executing an equity or depositary receipt trade. These can vary according to liquidity, urgency and volatility. For 2017 **price** was generally the leading execution factor used for this asset class, followed by **speed** and **size**. As we move into less liquid stocks then **cost** and **likelihood of execution** increase in priority but would be very unlikely to replace price or cost as the most important factors.

<sup>1</sup> Newton's Order Execution Policy is available at [www.newtonim.com](http://www.newtonim.com)

## EXECUTION FACTORS: MIFID II EQUITY EXCHANGE TRADED DERIVATIVES

Newton's Order Execution Policy defines the relative importance generally places on the factors considered when executing an equity exchange traded derivative trade. These can vary according to liquidity, urgency and volatility. For 2017 **likelihood of execution** was generally the leading execution factor used for this asset class, followed by **price**.

## EXECUTION FACTORS: MIFID II EXCHANGE TRADED PRODUCTS – ETF, ETN, ETC

The relative importance that Newton generally places on the factors considered when executing an equity exchange traded derivative trade can vary according to liquidity, urgency and volatility. For 2017 **price** was generally the leading execution factor used for this asset class, followed by **size**.

## EXECUTION FACTORS: MIFID II INTEREST RATE EXCHANGE TRADED DERIVATIVES

The relative importance that Newton generally places on the factors considered when executing an exchange-traded derivative trade can vary according to liquidity, urgency and volatility. For 2017 **settlement and execution** was generally the leading execution factor used for this asset class, followed by **price**.

## EXECUTION FACTORS: MIFID II OTHER CURRENCY DERIVATIVES

The relative importance that Newton generally place on the factors considered when executing an OTC Derivatives trade can vary according to liquidity, urgency and volatility. For 2017 **price** was generally the leading execution factor for this asset class.

## GOVERNANCE AND OVERSIGHT

Transaction cost analysis is employed across most asset classes to review the efficacy of Newton's trading, where it is appropriate to do so. Further management information is obtained on venue and counterparty usage and is reviewed monthly by the independent Newton Dealing Oversight Group. Any day-to-day concerns are addressed to and followed up by the Head of Dealing, with any escalation required to the Dealing Oversight Group, and in turn Newton's Investment Oversight Committee.

### Notes:

1. Due to the implementation of the Markets in Financial Instruments Directive (MiFID) in January 2018, the 2017 Top 5 Execution Venue and Quality of Execution Reports have been published on a best endeavours basis only.
2. Newton Investment Management (North America) Ltd (NIMNA) transmits all its client orders to Newton Investment Management Ltd (NIM).