

Newton Investment Management Limited Quality of Execution Annual Report
Disclosure Period: 1st January 2019 to 31st December 2019

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.

<p>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>	
<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"> 1. the investment intent of the portfolio manager who created the order; 2. the characteristics of financial instruments that are the subject of that order; and 3. the characteristics of the execution venues to which that order can be directed <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</p>

	<p>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>
<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;</p>	<p>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 which are provided by the broker, and the broker's ability to trade effectively on our clients' behalf. Execution performance data is also produced by an independent source.</p>
<p>(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;</p>	<p>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.</p>
<p>(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;</p>	<p>This is not applicable, as Newton does not trade retail client orders.</p>

(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	There are currently no consolidated tape providers in Europe.

Commentary

Execution Factors: MiFID II Debt instruments / Bonds

Newton's Order Execution Policy¹ defines the relative importance generally placed on the factors considered when executing a fixed income trade. These can vary according to liquidity, urgency and volatility. For 2019 **price** was generally the leading execution factor used for this asset class, followed by **size and likelihood of execution**.

The counterparties receiving the highest volumes in this asset class provided strong coverage, competitive pricing and access to liquidity especially in more esoteric and liquidity-challenged areas of High Yield and Investment Grade Credit. In this category, Newton is generally more likely to be trading to a portfolio manager-indicated limit or target level: this is why likelihood of execution is an important factor particularly in markets where Newton has no live dealing coverage.

Execution Factors: MiFID II Equities – Shares & Depositary Receipts Tick size liquidity bands 1 & 2

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 2019 **price** was generally the leading execution factor used for this asset class, followed by **speed** and **size**.

The brokers receiving the highest volume of orders in this asset class were selected on the premise of access to liquidity, notably block liquidity that enables Newton to execute as close to the portfolio manager's decision price point as practicable, given market impact and movement. Large investment banks that provide global coverage and access to technology driven solutions were dominant also for this reason.

Execution Factors: MiFID II Equities – Shares & Depositary Receipts Tick size liquidity bands 3&4

¹ Newton's Order Execution Policy is available at www.newtonim.com

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Execution Factors: MiFID II Equities – Shares & Depositary Receipts Tick size liquidity band 5 & 6

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Execution Factors: MiFID II Equity Exchange Traded Derivatives

Newton's Order Execution Policy defines the relative importance generally placed on the factors considered when executing an equity exchange traded derivative trade. These can vary according to liquidity, urgency and volatility. For 2019 **price** was generally the leading execution factor used for this asset class, followed by **likelihood of execution**.

The highest volume of orders in this category are executed by brokers who can provide superior coverage and access to liquidity, which governs the likelihood of execution. Additionally, UBS, who is also our clearing broker, executed the highest proportion of our business which is also linked to their ability to execute a co-ordinated multi-asset class rebalance and keep that in line with the overall trade and portfolio objective for our multi asset class funds.

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 2019 **price** was generally the leading execution factor used for this asset class, followed by **size**.

The ability for Newton to access liquidity through market makers who have the scale, balance sheet and ability to manage the risk transfer process commercially is reflected in the top five counterparties for this asset class. The orders in this category are primarily (not wholly) transacted through a competitive tender process known as the Request For Quote protocol. Counterparties selected for this process are selected through track record and Newton's knowledge of their ability to transact in the instruments in particular in large ticket sizes.

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 2019 **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 other Currency Derivatives trades can vary according to liquidity, urgency and volatility. For 2019 **price** was generally the leading execution factor for this asset class.

Governance and oversight

Transaction cost analysis is employed in the first line of defence across most asset classes to review the efficacy of Newton's trading, where it is appropriate to do so, using a range of applicable trading benchmarks to determine a distribution of outcomes against econometric modelled forecasts, on an exceptions basis. 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. The second line of defence utilises a sample-based methodology to examine the process employed and rationales for trading decisions.

Use of RTS 27 data

Newton has access to RTS 27 data. At present it is of limited use in assisting us in assessing quality of execution. In time we anticipate that this data will evolve and improve our assessment of quality of execution.

Opinion

On the basis of the consumption of the analytics across asset classes, with due scrutiny of any exceptions to expected results via the three lines of defence model employed by the firm and its oversight group/committee structure, the opinion of Newton is that best execution has been delivered for its clients for the period under review.

Appendix: Top 5 venue disclosures for RFQ platform trading

ESMA states that firms should also disclose the identity of the (up to five) counterparties against whom they most commonly execute for an asset class, where they have agreed the trade via a Request-For-Quote (henceforth referred to as “RFQ”) system of a trading venue that allows the firm to identify the counterparty with which they are dealing. This should appear as part of the summary of the quality of execution obtained (Article 3(3) and Recital 11).

Firms should, as part of this, disclose the proportion of the volume traded with each of these counterparties as a percentage of the total in that class of financial instruments. This disclosure should also include details of any close links, conflicts of interest, common ownership or specific arrangements with such counterparties. This information should be consistent with the information to be provided under Article 3(3) of RTS 28.

The table below shows Newton’s top five counterparties where deals were arranged on an RFQ platform across the relevant asset classes:

Currency derivatives: Swaps forwards and other currency derivatives		
Top Five Brokers ranked in terms of volume	Proportion of volume traded as a percentage of total in the class	Proportion of orders executed as a percentage of total in the class
STATE STREET BANK AND TRUST COMPANY	33.15%	44.64%
THE ROYAL BANK OF SCOTLAND PUBLIC LIMITED COMPANY	16.91%	10.50%
UBS AG LONDON BRANCH	12.66%	7.33%
HSBC BANK PLC	10.26%	11.91%
BARCLAYS CAPITAL SECURITIES LIMITED	9.16%	4.90%

Debt Instruments: Bonds		
Top Five Brokers ranked in terms of volume	Proportion of volume traded as a percentage of total in the class	Proportion of orders executed as a percentage of total in the class
DEUTSCHE BANK AKTIENGESELLSCHAFT	10.95%	4.62%
TD SECURITIES	9.20%	3.41%
CITIBANK, LONDON BRANCH	8.63%	5.36%
THE ROYAL BANK OF SCOTLAND PUBLIC LIMITED COMPANY	5.70%	2.88%
NOMURA INTERNATIONAL PLC	5.60%	2.54%

Debt instruments: Money markets instruments		
Top Five Brokers ranked in terms of volume	Proportion of volume traded as a percentage of total in the class	Proportion of orders executed as a percentage of total in the class
TD SECURITIES	42.27%	29.41%
DEUTSCHE BANK AKTIENGESELLSCHAFT	8.40%	13.24%
BARCLAYS CAPITAL SECURITIES LIMITED	7.58%	4.41%
CITIBANK, LONDON BRANCH	7.43%	7.35%
MORGAN STANLEY & CO. INTERNATIONAL PLC	7.14%	8.82%

Exchange traded products (Exchange traded funds exchange traded notes and exchange traded commodities)		
Top Five Brokers ranked in terms of volume	Proportion of volume traded as a percentage of total in the class	Proportion of orders executed as a percentage of total in the class
JANE STREET FINANCIAL LIMITED	37.85%	43.51%
ITG	20.14%	17.56%
HSBC BANK PLC	14.66%	2.80%
INVESTMENT TECHNOLOGY GROUP LIMITED	11.36%	11.70%
MORGAN STANLEY & CO. INTERNATIONAL PLC	4.18%	3.31%