

Dealing and best execution policy

1 Overview

Rathbone Investment Management Limited (Rathbones) has a regulatory and fiduciary obligation to ensure that its dealing policies are transparent and fair for all clients. Rathbones takes these responsibilities very seriously as part of its commitment to execute transactions effectively and competitively as part of its wider investment management mandates.

The purpose of this document is to outline the primary factors that drive our best execution decision making process and our choice of execution entity.

Rathbones' principal business is providing discretionary investment management to retail clients. Rathbones does not execute investment orders directly with the market on behalf of clients, but passes the orders to 'execution entities' - usually a broker or retail service provider (RSP) - who will effect execution with the 'execution venue'. Rathbones is defined as an order transmitter under the Markets in Financial Instruments Directive II (MiFID II).

Rathbones' obligations under MiFID II are reflected in 11.2.34 of the Conduct of Business Rules (COBS) of the Financial Conduct Authority (FCA) as set out in its handbook of rules and guidance.

2 Financial instruments covered

All MiFID II instruments detailed below:

- Equities, bonds and warrants
- Units in a collective investment scheme

3 Best possible result

Under MiFID II, an investment manager or order transmitter is required to take all sufficient steps to obtain the best possible result for its clients. To obtain the best possible result Rathbones will:

- Take into account certain specified execution factors (see below); and
- Determine the relative importance of such factors by reference to the execution criteria (see below).

For retail clients (as defined in the FCA Handbook) the best possible result must be determined by reference to total consideration (i.e. not only direct expenses such as price and the costs of execution, but also other expenses such as execution entity fees and clearing and settlement fees).

Whilst it is not obligatory for firms to include their own costs in this calculation (except where they vary across competing venues for the same product), Rathbones reserves the right to include such costs in its calculations where it is felt that their absence would unduly distort the overall picture.

This policy is based upon the principle that Rathbones will meet its regulatory responsibility to obtain the best possible result for the execution of client orders on a consistent basis. This will be achieved through due diligence and clearly defined procedures and controls. These procedures and controls will be reviewed at least annually, or when there is a material change to the

procedures or execution entities, and the outcome of individual deals monitored on a sample basis, to ensure that the best execution policy and procedures remain effective.

Aggregation of client orders

Rathbones may aggregate client orders. The full policy is included in our Terms of Business.

Allocation of client orders

In the event of an order not being completed, the executed portion of the trade will be booked across the aggregated clients on a pro rata basis, unless it is uneconomic to do so. The full policy is included in our Terms of Business.

4 Execution criteria

Rathbones will take into account the following criteria for determining the relative importance of the execution factors:

- The characteristics of the client order;
- The characteristics of the financial instruments that are the subject of that order; and
- The characteristics of the execution venues to which that order can be directed.

5 Execution factors

The best execution factors to be considered are:

- Price;
- Speed - in a volatile market it is generally better to try to execute a trade quickly, whereas in a less liquid market it may be better to trade slower, to limit market impact;
- Likelihood of execution and settlement;
- Size - as above in relation to speed, the size of an order may influence how an order may be handled;
- Nature - if the nature of an order requires that it be handled differently, this may have an impact on how best execution is achieved;
- Cost - Although not passed directly onto clients, there are various costs associated with utilising different order executors/venues. The costs include broker commission, exchange fees, RSP costs and transaction reporting charges;
- Any other consideration relevant to the execution of an order;
- Rathbones treats all clients as retail clients from a best execution perspective.

Dealing and best execution policy – continued

6 Specific instructions

Where Rathbones is placing or transmitting an order on the specific instructions of a client (e.g. the client has specified the order venue) it will have satisfied its obligation to act in accordance with the best interest of the client.

Specific instructions in relation to the execution of an order may prevent Rathbones from following its Best Execution Policy in relation to such orders in respect of the elements of execution covered by the instructions.

Rathbones, as order transmitter, is not able to provide clients with direct market share price quotations.

7 Execution entities

Rathbones does not execute any equity trades direct with the market. As an order transmitter (see above) Rathbones will pass trade details onto execution entities who will execute trades with the market.

Rathbones has different options when dealing in fixed income securities (bonds). As with equities, Rathbones may transmit orders to a broker to execute trades. Alternatively, Rathbones may choose to execute orders with another counterparty directly via the Bloomberg MTF (Multilateral Trading Facility).

Retail Service Providers (RSPs)

The RSPs provide a quote driven electronic trading platform. They compete with each other for order flow and therefore often make tighter prices than those seen on the primary exchange. This competitive market enables Rathbones to choose the best price for clients.

Direct market access (DMA)

DMA is an electronic method of gaining access to the London Stock Exchange and Recognised Investment Exchanges (RIE) as well as other pools of liquidity. It is through access to a wide variety of execution venues that Rathbones seeks to ensure transactions are executed efficiently and effectively. Trades executed through this medium attract a small brokerage charge – typically two to ten basis points. This is absorbed by Rathbones.

Third party external brokers

These brokers are obliged to provide a duty of best execution to Rathbones and provide a trading service through their sales trading desks. The quality of execution is monitored on an ongoing basis using an independent third party best execution monitoring system.

The provision of best execution will also be reviewed by the Dealing Execution Management Committee. Trades placed with these agencies attract a broking commission charge in respect of both UK and overseas equities. This is absorbed by Rathbones.

Rathbones has agreements in place with all approved order executors.

A full list of approved brokers is provided in Appendix A.

Collective schemes

Orders in respect of unit trusts and other collectives are placed direct with the issuing house. Almost without exception, orders are placed for forward pricing in line with standard industry practice. As there is no secondary market in these securities, placement on this basis represents best execution.

8 Order flow

Rathbones, has developed a default order flow. This is summarised in the order flow matrix in Appendix B.

Equities and exchange traded products

For UK equities, the default is to seek to place the order out through the RSPs. By selecting this method Rathbones addresses the execution factors identified above as follows:

Price

The RSPs have an automatic price improvement programme built into their systems. This means that the price will be at or within the 'touch' (the bid /offer spread on the RIE for which the stock is traded) for trades 'within size'. In many cases the price offered may even improve on the bid/offer spread on the primary exchange representing a better price for the client. RSPs do not currently provide a price based on the consolidated price of alternative exchanges or multilateral trading facility coupled with the primary RIE.

Whilst trades are placed electronically with the RSPs and an electronic polling engine is used to obtain the best price from all RSPs who are providing a quote, Rathbones retain final control over the acceptance or rejection of the price.

Speed

With direct electronic links to multiple RSPs through an electronic messaging system, orders are placed/executed within seconds.

Likelihood of execution

The RSPs have an obligation to provide price and size quotes throughout the exchange trading hours relevant to the securities in question. By combining this with Rathbones' knowledge surrounding the coverage provided by the RSPs, this ensures a very high likelihood of execution.

Cost

The RSPs represent the most cost effective execution option for Rathbones as there is no broker commission, additional system or exchange costs.

Dealing and best execution policy – continued

When Rathbones is not able, or does not feel it would be beneficial to the clients from a best execution perspective to place the order through the RSPs, one of two options will be followed: orders will either be placed via DMA or with an external broker; the decision as to which, will be made on a trade by trade basis and will be governed by factors such as:

- The size of the order;
- Liquidity; and
- Complexity of the order, e.g. might it need to be executed over several days? Does it contain multiple settlement shapes?

Best execution is the driving factor in the decision making process with selection being made on the basis of achieving the best possible outcome for the clients.

Bonds

Rathbones utilises two execution options. Trades can be executed via the Bloomberg MTF directly with a market making bank or passed to an external broker. Again, the decision as to which avenue to take will be made on a trade by trade basis. Best execution is the driving factor in the decision making process with selection being made on the basis of achieving the best possible outcome for the clients.

Illiquid stocks and unquoted securities

When dealing with orders in illiquid securities, specialist brokers on the approved broker list (rather than a RSP) will be employed to execute orders on behalf of our clients and in these circumstances the likelihood of execution is the primary factor when selecting a broker.

Unquoted securities are dealt with on a case by case basis. As there is only limited price data available, and limited choice of execution entity, likelihood of execution and counterparty risk are the main factors used to determine the steps taken. In the event that a client has instructed Rathbones to buy or sell an unquoted security, because of the nature of it being traded outside a regulated trading venue, the client may have to accept the possible consequences of the request, including counterparty risk.

Units in collective investment schemes

As there is no secondary market in these securities, trades are placed directly with the provider. Where relevant, forward pricing will always be sought as opposed to historic pricing in line with the industry standards.

Structured products/Hedge funds

As there is no secondary market in these securities, trades are placed directly with the provider.

Money market instruments

Rathbones does not deal directly in money market instruments on behalf of clients.

Derivatives

Rathbones does not deal directly in derivative instruments on behalf of clients apart from warrants. However, investment vehicles such as hedge funds and exchange traded funds may utilise derivatives as part of their investment strategy.

9 Review process

The quality of execution is monitored in the first instance by the central dealing desk (operating as a 'first line of defence') using an independent third party best execution monitoring system. This is reviewed by the Compliance department operating as a 'second line of defence'. The data will also be reviewed by the Dealing Execution Management Committee (the Committee) as part of the annual broker report.

There is also a wider external broker review process undertaken through the Committee. The Committee reviews all aspects of Rathbones' Best Execution Policy (as the 'first line of defence'). This review is then counter reviewed by Compliance (as the 'second line of defence').

Rathbones formally reviews its Best Execution Policy at least annually. This formalised review will be supplemented by ad hoc reviews that may arise from time to time throughout the period as a result of economic, regulatory and/or operational changes.

Dealing and best execution policy - continued

Appendix A

List of approved external brokers

Equity Brokers	Equity Brokers
Autonomous Research LLP	Sanford C Bernstein Ltd
Baden Hill	SG Securities Ltd
Barclays Capital	Shore Capital Ltd
Berenberg	Stifel Nicolaus Ltd
Canaccord Genuity	Stockdale Securities Ltd
Cantor Fitzgerald & Co	UBS
Cenkos Securities Limited	Winterflood Securities Ltd
Citigroup Global Markets	
Commerzbank AG	
CSFB Equities Ltd	
Deutsche Bank	
Finncap Ltd	
Goldman Sachs	
Goodbody	
Hobart Capital	
Instinet	
Investec	
Jefferies International Ltd	
J P Morgan Cazenove	
Kepler Chevreux	
Liberum Capital Ltd	
Mirabaud Securities	
Morgan Stanley	
Numis Securities Ltd	
N+1 Singer Capital Markets Ltd	
Panmure Gordon Ltd	
Peel Hunt	
Piper Jaffray Ltd	
Redburn Partners Ltd	
Sanford C Bernstein	
Shore Capital Stockbrokers Ltd	
SG Securities Ltd	
Stifel Nicolaus Ltd	

Dealing and best execution policy - continued

Appendix A (continued)

List of approved external brokers

Overseas Equity brokers	Fixed Income (Bond) Brokers
Atlantic Equities	Banco Santander
BMO Capital Markets	Barclays Capital
Handelsbanken	Bridport
Investec	Christopher Street
J & E Davy	Commerzbank AG
Janney Montgomery Scott	Deutsche Bank
Jefferies	F&G
Landesbank BW	HSBC
Messels Instinet	Lloyds Bank Capital Markets
Mirabaud Securities Limited	Mitsubishi UFJ
Northern Trust	Morgan Stanley
Peel Hunt	Nomura
Raymond James	Oppenheimer
RBC Capital Markets	Peel Hunt
Sanford C Bernstein	RBS Citigroup
SG Securities Ltd	RIA Capital Markets
Stifel Nicolaus Ltd	Royal Bank of Canada (RBC)
Uob Kay Hian Limited	Toronto Dominion
Vontobel	UBS
Wells Fargo	Winterflood Securities Ltd
Winterflood Securities Ltd	
Yuanta Securities Ltd	

Dealing and best execution policy - continued

Appendix B

Order flow matrix

Stock type	Default route	Notes
CREST including bonds ISA and standard terms i.e. T+2, no limits etc apply	Order forwarded to the central dealing desk via RID order entry (1) and dealt direct with the RSPs via the Rathbones dealers (2). Please see attached summary of best execution features inbuilt to RSP process.	<p>Orders that cannot be processed via the RSP trades will automatically be executed via DMA or directed to an external broker unless specified otherwise.</p> <p>Investment Managers can specify a particular external broker (3) in the order header details providing the dealing desk is satisfied that the primary execution factors are satisfied.</p>
CREST including bonds stock held in charity/mixed orders or non standard terms apply	Order to the central dealing desk via RID order entry and dealt either through DMA or placed with an external broker.	<p>As well as executing via the RSP/ DMA, the dealers will also consider each trade for its suitability for execution with an external broker paying particular attention to the primary execution factors of price, likelihood of execution and costs. As above, Investment Managers can specify a particular external broker in the order header details provided the dealing desk is satisfied that the primary execution factors are satisfied.</p>
Overseas equities and bonds (including eurobonds)	Order to the central dealing desk via RID order entry. Orders are executed via external broker or via Bloomberg MTF as deemed appropriate in accordance with the primary execution factors.	
Unit Trusts	All dealt through the central dealing desk. Majority now placed electronically via Calastone or EMX.	An order cut-off time one hour before the fund dealing time (valuation point) is in place.
Illiquid/Unquoted Securities	Dealt on a case by case basis	

Dealing and best execution policy - continued

Notes

- 1 All orders entered via the RID order entry system are sent to the central dealing desk.
- 2 Most CREST stocks with standard terms i.e. T+2 no limits & within normal market size when dealt straight with the RSPs via the central dealing desk are undertaken at low cost and have inbuilt best execution safeguards.
- 3 A list of external brokers has been drawn up with whom the central dealing desk will place appropriate orders. Any request to add an external broker to the approved list requires completion of a 'New Broker Request' form. This should then be submitted to the Dealing Execution Management Committee.
- 4 Overseas equities and bonds will be placed by the central dealing desk with an outside broker of their choice unless specified otherwise; in either case, the primary best execution factors must be satisfied. Trades are generally subject to the usual broker commission rates (0.2% for US equities and for European equities, and around 0.5% for Far East and Asian stocks), but individual rates may be negotiated in respect of specific large value trades.

Rathbone Investment Management Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.
Registered office: Port of Liverpool Building, Pier Head, Liverpool L3 1NW
Registered in England number: 01448919
VAT Registration number: GB 241 6893 49
Copyright © 2018. Rathbone Brothers Plc. All rights reserved.

Rathbones
Look forward