
REPORT

**OLD MUTUAL GLOBAL
INVESTORS (UK) LIMITED
QUALITATIVE EXECUTION**

APRIL 2018



MIFID II REQUIRES OLD MUTUAL GLOBAL INVESTORS (UK) LIMITED (OMGI) TO PRODUCE THIS QUALITATIVE EXECUTION REPORT COVERING ORDERS EXECUTED IN 2017. APPENDIX 1 REPRODUCES THE REGULATORY SPECIFICATION FOR THIS REPORT. THIS REPORT INCLUDES DETAILS FOR BOTH PLACED AND EXECUTED ORDERS.

CONFLICTS OF INTERESTS, AND COMMON OWNERSHIPS WITH RESPECT TO ANY EXECUTION VENUES USED TO EXECUTE ORDERS.

OMGI takes investment positions on behalf of clients and funds in listed equities including corporate organisations which supply investment services and execution venues. These positions are justified entirely on investment merit and are not linked to any commercial relationships OMGI has with the corporate organisations.

OMGI retains Citigroup as third party administrator for the funds it manages. This service includes fund pricing and custody. The relationship is independent from order execution and priced solely on a commercial basis for the service.

OMGI ensures all non-execution services supplied by counterparties are independent from order execution and priced on a stand-alone commercial basis.

OMGI does not own any share of execution venues or counterparties other than the investments made on behalf of the funds it manages.

OMGI has research relationships with a number of market counterparties. These are independent of the execution services supplied by the counterparties and OMGI pays for the service from its own resources.

SPECIFIC ARRANGEMENTS WITH ANY EXECUTION VENUES REGARDING PAYMENTS MADE OR RECEIVED, DISCOUNTS, REBATES OR NON-MONETARY BENEFITS RECEIVED.

OMGI does not have any arrangements with execution venues other than standard execution terms and commissions.

CLIENT CATEGORISATION

Clients are funds managed by OMGI and fund management mandates appointed by institutional clients. OMGI does not have any direct retail clients. Therefore all clients are the professional category and all are treated equally.

The fund strategy and nature of the instruments in it dictate any order execution methods and not the classification of the client.

RELATIVE IMPORTANCE OF EXECUTION FACTORS OF PRICE, COSTS, SPEED, AND LIKELIHOOD OF EXECUTION OR ANY OTHER CONSIDERATION INCLUDING QUALITATIVE FACTORS WHEN ASSESSING THE QUALITY OF EXECUTION.

Price is the primary factor for all transactions. When other factors come into the equation, the objective for dealers remains to achieve the best possible price subject to the other factors.

The fund strategy is an important determination of the relative importance of the factors. For systematic strategies which require daily rebalancing the likelihood of execution is important and the dealers select execution methods which achieve prompt execution at the prevailing market level.

There is more discretion for Alpha fund strategy orders where no two orders have exactly the same characteristics. The order size and available market liquidity dictate the factor priorities. Dealers exercise their judgement to determine the best market approach.

Some orders give speed of execution priority. The manager may wish to enter or exit a position quickly and is willing to compromise on price to achieve a prompt execution. Dealers consult with the fund manager to validate an acceptable price.

Certain instruments such as exchange traded derivative and foreign exchange have highly visible and liquid markets. Orders for these markets are executed promptly at the market level using suitable dealing platforms or brokers.

Where an order must be executed at a specific time the dealers select a method which ensures execution occurs at the appropriate time.

TRADE COST ANALYSIS (TCA) AND EXECUTION MONITORING

In 2017 OMGI used both internal processes and externally supplied software to analyse order executions.

Dealers used internal systems to verify equity executions and placements against market execution benchmarks (VWAP).

Other equity transactions were analysed using externally supplied software (LiquidMetrix). While it was possible to evaluate the implicit execution costs which were within tolerance of the expected ranges, non-standard order sizes and variable market liquidity made it difficult to distil information which may be used to improve execution methods.

Foreign exchange executions were reviewed using external software (ITG). Reviews of implicit dealing costs indicated very tight spreads in the major markets with spreads in minor and emerging markets a little wider as expected.

Analysis of electronic platform executions of fixed income orders were analysed using platform supplied metrics. These systems request quotes from multiple counterparties simultaneously; as such they represent the best available price at the time of dealing.

Dealers and compliance reviewed other fixed income orders manually with sample investigation of outlying costs. The instruments in this subset were primarily emerging market bonds and other difficult to trade bonds which explains the higher implied costs and the difficulty in establishing a valid market level for comparison.

Compliance reviewed all OTC derivative transactions manually. Transactions which exhibited high costs relative to closing prices were investigated further to establish proper intraday levels. Compliance required dealers to justify levels which compliance could not validate.

As part of the implementation of MIFID II, OMGI revamped the execution monitoring process. The equity and foreign exchange TCA software were changed to new suppliers and a new supplier engaged for fixed income and exchange traded derivatives. MIFID II is driving development of TCA software and we expect further improvements over the next 12 months. However we have not yet found a suitable TCA tool to analyse OTC derivatives, this process remains manual.

Dealers are responsible for achieving and improving execution methods. They are the execution experts and are best placed to understand the subtleties of the markets. In addition OMGI formed an independent monitoring group to review and ratify the dealer analysis. This group also has the responsibility to both understand and improve execution methods.

EQUITIES

OMGI transmits all equity orders to market counterparties for execution.

OMGI manages a number of systematic daily rebalancing funds which require prompt execution at the prevailing market level. These strategies generate high order volumes for the more liquid equities and this turnover dominates the top five tables. For these orders the dealers use a program trading approach with counterparties competing to price the trade baskets relative to the prevailing market level. Larger and global market counterparties are best placed to price this business most competitively. Dealers manage the counterparty list to maintain pricing competition.

For less liquid equities the top five report has more focus on specialist counterparties. OMGI has a strong presence in the UK Small and Mid Cap sectors which generates orders in the less liquid equity class. The counterparties with access to liquidity and therefore the best pricing in this sector tend to be the UK equity market makers. Orders for these stocks may take several days or even longer to complete. Therefore it is important to work with a competent counterparty which is in touch with the stock in question in order to have the best opportunity to transact at the best price and in the volumes required.

DEBT INSTRUMENTS

The fixed income market is dominated by the large and global capital market counterparties. OMGI maintains dealing relationships with all the major counterparties. Execution is through multi-lateral trading facilities (MTF) or by direct request for quote (RFQ) to the counterparties.

In small and normal market order sizes OMGI usually approaches the market through the MTF MarketAxess for corporate bonds and Bloomberg Trading Facility for Government bonds. Execution on these platforms is an RFQ process with access to all the major counterparties.

For some orders it is important to work co-operatively with the market to achieve the best possible outcome. The price to transfer the risk of a position to counterparty may include a premium for the risk that the counterparty will not be able to offset or hedge the risk promptly. By working with the counterparty and transferring the risk in smaller units reduces the risk transfer premium.

OMGI does not have an active money market programme. OMGI manages excess cash (USD and GBP) using Government T-Bills. Typically positions are acquired and held to maturity. US bills are liquid and traded by most global counterparties. UK Bills are less liquid and are typically acquired in the weekly auctions.

INTEREST RATE DERIVATIVES

Access to the futures exchanges is generally through the nominated clearing broker for each fund. Exchange liquidity and pricing is visible and using the nominated broker for execution and clearing minimises the transaction cost.

At the start of the year we operated on a bi-lateral model with interest rate swaps executed and novated with counterparties under an ISDA. During the year we opened clearing accounts and moved open positions into the cleared model. This opened new lines of liquidity to specialist providers such as JB Drax and Citadel. LCH is the primary clearing house.

Most swap transactions are large size and a discreet approach to the markets is appropriate. For many orders the managers test the markets for liquidity and make levels of interest known. Price is usually the most important factor with managers prepared to wait for the market and liquidity to come to them.

CREDIT DERIVATIVES

The dealers execute Credit default swaps using the Bloomberg Trading Facility, an RFQ MTF platform. Positions are administered under bi-lateral ISDAs and liquidity is limited to those counterparties with the correct legal documentation.

CURRENCY DERIVATIVES

Access to the futures exchanges is generally through the nominated clearing broker for each fund. Exchange liquidity and pricing is visible and using the nominated broker for execution and clearing minimises the transaction cost.

For normal size FX trades which require prompt execution the dealers use electronic RFQ platforms to access the markets (FXALL, FXCONNECT). Large trades are negotiated on an RFQ basis directly with the counterparty.

STRUCTURED FINANCE INSTRUMENTS

OMGI does not trade structured finance derivatives

EQUITY DERIVATIVES

Access to the futures exchanges is generally through the nominated clearing broker for each fund. Exchange liquidity and pricing is visible and using the nominated broker for execution and clearing minimises the transaction cost.

SECURITIZED DERIVATIVES

OMGI does not trade securitised derivatives. On rare occasions portfolios acquire warrants through corporate actions. These are typically held to maturity or exercised.

COMMODITIES DERIVATIVES AND EMISSION ALLOWANCES DERIVATIVES

Access to the futures exchanges is generally through the nominated clearing broker for each fund. The price and liquidity are visible on the exchanges and the dealer accesses this through clearing broker supplied algorithms

During the year, to extend the available instrument scope to include contracts listed on the ICE Canadian futures exchange we added a second clearing broker, Morgan Stanley.

The clearing broker and dealer use broker supplied TCA to analyse the price performance of the algorithms.

CONTRACTS FOR DIFFERENCE (CFD)

CFDs are typically equity derivatives and the dealers use the equity dealing methods to approach the market. Positions are given up to swap counterparties to administer the CFDs under an ISDA. In the US markets it is not possible to give up positions and execution is limited to the swap counterparty.

SECURITIES FINANCING TRANSACTIONS (SFT)

OMGI does not undertake stock lending limiting SFTs to repurchase and reverse repurchase transactions (repos). Repos are conducted under a GMRA. In recent years there was a reduction in the number of market participants offering repo liquidity. Relationships are now limited to one or two counterparties per currency and positions are very often continuously rolled subject to competitive market rates. As such the liquidity offered is the

most important factor for repo transactions. Where rates become uncompetitive the managers research alternative liquidity sources.

EMISSION ALLOWANCES

OMGI does not manage portfolios which make use of emission allowances.

APPENDIX 1 - DIRECTIVE 2014/65/EU (MIFID II)

RTS 28 - C(2016) 3337/3

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. The information shall include:

- 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;
- b) a description of any close links, conflicts of interests, and common ownerships with respect to any execution venues used to execute orders;
- c) a description of any specific arrangements with any execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received;
- 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;
- 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;
- 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;
- 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 Commission Delegated Regulation (EU) .../...to be inserted before publication [RTS 27];
- h) where applicable, an explanation of how the investment firm has used output of a consolidated tape provider established under Article 65 of Directive 2014/65/EU.

http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160608-rts-28_en.pdf

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