Smith & Williamson

NCL Investments Limited

Qualitative Report for Equities – Shares & Depository Receipts

This report was produced by NCL Investments Limited ("NCL", "we" or "our") and provides a qualitative order execution assessment for Equities – Shares and Depositary Receipts ("Equities"), in the format described in Article 3(3) of Commission Delegated Regulation EU/2017/576, for the period 1 January 2018 to 31 December 2018.

Execution venues

NCL executed orders for Smith & Williamson Investment Services Limited ("SWIS"), a Smith & Williamson Group company, or other Professional clients, in UK listed equities.

NCL used a number of different types of execution venue when executing orders in equities:

- Regulated Markets;
- Multilateral Trading Facilities ("MTFs");
- Third party investment houses and/or their affiliates acting as a Market Maker or liquidity provider.

NCL has neither close links nor any common ownership with respect to any execution venue used for this instrument type.

We followed a documented procedure when approving brokers and counterparties and have completed all necessary compliance checks.

NCL has policies and procedures in place to monitor any payments, or minor non-monetary benefits, received from third parties to ensure that they are designed to enhance the quality of service to the client and do not impair our ability to act in accordance with the best interests of our clients. In 2018, NCL has not recorded any conflicts of interest with any venues used in this asset class.

Execution factors

To achieve the best possible result, we have, on a consistent basis, taken into account a number of execution factors, including: price, costs associated with execution, speed of execution, likelihood of execution, the size and nature of the order, and quality of any related clearing and settlement facilities.

NCL has determined the relative importance of each of these factors and the manner in which each order was executed, based on the circumstances at the time of execution, such as:

- The type of financial instrument and nature of the order;
- The execution venues to which the order could have been directed.

In most cases, price and costs associated with execution (the "total consideration") were the most important factors; however in markets where liquidity was low, likelihood of execution on some occasions took priority, while in markets where volatility was high, speed of execution was more important.

Client categorisation

NCL executed transactions on behalf of Professional clients only and as such client categorisation did not have any impact with regards to order execution arrangements.

Summary of analysis and conclusions

In 2018, orders of Normal Market Size were mostly executed with retail Market Makers, such as Winterflood Securities Limited. The majority of these transactions were single fill orders executed within the Primary Exchange Best Bid / Offer - the lowest ask price and highest bid price available on the London Stock Exchange ("LSE"). Larger, discretionary orders were mostly executed via Smart Order Routers (SORs), which used advanced order routing rules and algorithms (computer programs designed to follow a defined set of instructions) to access additional available liquidity on other execution venues (such as Exchanges, Multilateral Trading Facilities and Systematic Internalisers) and which reduced market impact.

Our qualitative review of the output from the top five venue reports corresponded with our expectation for the various execution venues used according to the tick size liquidity bands in which the instruments were placed. The least liquid instruments, in tick size liquidity bands 1 and 2 (from 0 to 79 trades per day), were dealt with UK Service Providers ("RSPs"), either directly, or via NCL for UK listed securities. RSPs are market makers who offer competitive prices in these instruments.

Instruments in tick size liquidity bands 3 and 4 (from 80 to 1999 trades per day) are more liquid mid-cap equities and as such a combination of venues were used for execution. Orders were executed via Smart Order Routing ("SOR") systems, which allowed us to access liquidity on the Central Order Book and other liquidity venues, or via RSPs.

For the most liquid tick size bands 5 and 6 (from 2000 trades per day), the majority of orders were executed using SOR systems, giving us full access to numerous liquidity venues (including Recognised Exchanges, Multilateral Trading Facilities and Systematic Internalisers) and a high volume of smaller value trades with RSPs.

Our primary source for liquidity band calculations was ESMA. The period used by ESMA for these calculations was January 2017 to September 2018. We also complemented this information using the Average Daily Volume for each instrument, obtained from an independent data provider. In cases where this data was not available for the period January 2017 to September 2018, our independent data provider used the most recent year available to calculate liquidity bands.

NCL is a member firm of the LSE and as such, all orders in UK listed equities were subject to the Rules of the LSE.

The Best Execution Working Group ("BEWG") monitored adherence to the firm's Order Execution Policy and the effectiveness of our order execution arrangements and procedures. Execution quality of orders in this instrument type were reviewed on a monthly basis. BEWG have utilised the services of an independent provider of Transaction Cost Analysis ("TCA") to assist with this monitoring. This TCA tool enabled us to compare the prices achieved by NCL with market prices and other industry standard benchmarks, enabling an in-depth analysis of execution performance. All outliers from this analysis were reviewed by BEWG and any instances identified where NCL did not achieve best execution for its clients were investigated, and in some instances appropriate compensation was paid.

Further information regarding the monitoring carried out on execution quality can be found in the SWIM and SWIS qualitative reports for Equities.