Smith & Williamson Investment Services Limited

Qualitative Report for Equities – Shares & Depository Receipts

This report was produced by Smith & Williamson Investment Services Limited ("SWIS", "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

For UK listed equities, SWIS acted as Agent and transmitted all orders to NCL Investments Limited ("NCL"), a Smith & Williamson Group company, for execution. For non-UK listed equities, SWIS transmitted orders to external brokers for execution. SWIS has neither close links nor any common ownership with respect to any broker used for this instrument type, apart from NCL.

SWIS 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, SWIS has not recorded any conflicts of interest with any venues used in this asset class.

A list of venues on which SWIS placed a significant reliance is contained within its Order Execution Policy, dated April 2019.

To obtain a complete copy of our Order Execution Policy, please visit:

http://smithandwilliamson.com/footer-pages/regulatory-information

Execution factors

To achieve the best possible result, SWIS has 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.

SWIS 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.

When assessing the best possible result in these circumstances, SWIS has taken account of any local execution charges, including commissions and taxes (for instruments traded outside the UK).

Client categorisation

SWIS executed transactions on behalf of both Retail and Professional clients, however there was no differentiation in client treatment with regards to order execution arrangements.

Summary of analysis and conclusions

During 2018, SWIS executed a large proportion of its equity transactions through NCL. NCL is a member firm of the London Stock Exchange ("LSE") and executing orders in UK listed equities in this way has meant they 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 its order execution arrangements and procedures. Transactions executed through NCL were analysed in the same way as all other trades carried out by SWIS and as such we do not believe there was any conflict of interest.

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.

Execution quality of orders in this instrument type was 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 SWIS 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 SWIS 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 NCL qualitative reports for Equities.