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GENERATION INVESTMENT MANAGEMENT LLP

BEST EXECUTION REPORT FOR 2019

APRIL 2020

1. BACKGROUND

Following the implementation of MiFID II on 3 January 2018, Generation is required to make certain annual disclosures on the top five execution venues/investment firms with whom it has placed orders for execution in the previous year. The specific information to be provided is set out in Regulatory Technical Standard 28 (“RTS 28”) of MiFID II. This represents Generation’s third annual report.

RTS 28 requires Generation to complete specific templates for each class of financial instrument in which it places orders, setting out the percentage volume and number of orders of its top five brokers and information on the quality of the execution obtained. This information has to be broken down by retail clients and professional clients. Generation does not provide services to retail clients so the information provided is solely based upon orders executed on behalf of professional clients.

CONFLICTS OF INTEREST

In accordance with RTS 28, Generation is also required to provide information on any close links, conflicts of interest and common ownerships it might have with the investment firms with which it places orders. Generation can confirm that it continues to have no close links, conflicts of interest nor common ownerships with its brokers.

Generation is also able to confirm that it has not entered into specific arrangements with its brokers regarding payments made or received, discounts, rebates or non-monetary benefits. Prior to the implementation of MiFID II Generation took the decision to pay for all research it receives from its brokers and third party research providers directly out of its own resources. Generation has agreed common execution only commission rates with its brokers which are solely subject to variations by region and transaction type.

2. ORDER EXECUTION POLICY

Prior to the provision of portfolio management services Generation provides its professional clients with its Order Execution Policy. The Policy includes information on inter alia:

- > Arrangements for and commitment to the achievement of best execution;
- > broker selection and approval process;
- > broker commission rates;
- > current approved brokers for each asset class;
- > the operation of its independent dealing desk;
- > aggregation and allocation arrangements;
- > broker oversight and monitoring arrangements; and
- > the main execution factors that Generation considers when placing orders, ranked by level of importance.

As required by RTS 28, in the tables included at section 3 below, Generation has set out (for each class of financial instruments) the relative importance it assigns to the following execution factors: price, costs, speed, likelihood of execution, size and nature of the order. Since the last report there has been no material change to Generation's order placement arrangements and its ranking of execution factors. However, the gravitation, identified in last year's report, to the increased use of electronic broker platforms that are able to provide access to natural liquidity with little order information leakage has continued.

In its selection of brokers and order execution Generation applies the same process consistently across all of its clients, except where a client has directed Generation to deal exclusively through a particular broker of the client's choice.

Broker execution performance in listed equities is monitored on a continuous basis by Generation's dedicated dealing desk. Once a trade has been placed with a broker, prices are checked against the prevailing price in the market; its progress is monitored on a real time basis by the independent dealing desk to full execution. The executed price is monitored against the prevailing market volume weighted average price.

In addition, Generation continues to use the services of an independent third party provider of transaction cost analysis. Generation works to identify and establish appropriate benchmarks for our style of investing and process. The analysis aims to capture the effectiveness of the execution process in aggregate whilst also identifying exceptions based on predefined criteria and tolerances versus benchmarks that may include opening and closing prices, volume and volatility events and possibly news events.

3. TOP FIVE BROKERS BY CLASS OF FINANCIAL INSTRUMENT

N.B. – RTS 28 requires firms to set out the percentage of orders that were passive and aggressive orders. A ‘passive order’ is an order that effectively provides liquidity, while an ‘aggressive order’ is one that takes liquidity. As set out in ESMA’s Investor Protection Q&A (Q 14), portfolio managers should only identify passive or aggressive orders where the portfolio manager has attached a specific instruction to an order, and that instruction is understood to mean that the broker will execute the order in a fashion that is either passive or aggressive.

CLASS OF INSTRUMENT:		(A) EQUITIES - SHARES & DEPOSITARY RECEIPTS - (I) TICK SIZE LIQUIDITY BANDS 5 AND 6 (FROM 2000 TRADES PER DAY)			
NOTIFICATION IF <1 AVERAGE TRADE PER BUSINESS DAY IN THE PREVIOUS YEAR:		N	CLASS PERCENTAGE OF TOTAL EQUITY VOLUMES:		37.06%
TOP FIVE EXECUTION VENUES RANKED IN TERMS OF TRADING VOLUMES (DESCENDING ORDER)	PROPORTION OF VOLUME TRADED AS A PERCENTAGE OF TOTAL IN THAT CLASS	PROPORTION OF ORDERS EXECUTED AS PERCENTAGE OF TOTAL IN THAT CLASS	PERCENTAGE OF PASSIVE ORDERS	PERCENTAGE OF AGGRESSIVE ORDERS	PERCENTAGE OF DIRECTED ORDERS
Liquidnet Europe Limited	67.4%	19.7%	N/A	N/A	0.0%
Credit Suisse International	14.4%	82.6%	N/A	N/A	0.0%
Sanford Bernstein & Co LLC	7.2%	1.9%	N/A	N/A	0.0%
Morgan Stanley & Co. International plc	2.5%	0.5%	N/A	N/A	0.0%
Goldman Sachs International	2.1%	1.9%	N/A	N/A	0.0%

Execution Factors – Equities – Liquidity Band 5 and 6 - ‘Liquid equities’:

- > These represent orders that can generally be completed within 1 – 2 days
- > Special Client Order Instructions, acting in accordance with client direction, is considered of the highest importance when seeking to meet client expectations.
- > The nature of the order as received from the Investment Decision Maker is the next most important criteria for consideration; objective and intention of the portfolio manager, any order constraints such as price limits and level of urgency.
- > Price is subsequently considered a key measurable factor when assessing best execution.
- > Liquidity / Size is of increasing importance when trading larger size orders.

CLASS OF INSTRUMENT: (A) EQUITIES - SHARES & DEPOSITARY RECEIPTS - (II) TICK SIZE LIQUIDITY BANDS 3 AND 4 (FROM 80 TO 1999 TRADES PER DAY)						
NOTIFICATION IF <1 AVERAGE TRADE PER BUSINESS DAY IN THE PREVIOUS YEAR		N		CLASS PERCENTAGE OF TOTAL EQUITY VOLUMES:		
TOP FIVE EXECUTION VENUES RANKED IN TERMS OF TRADING VOLUMES (DESCENDING ORDER)		PROPORTION OF VOLUME TRADED AS A PERCENTAGE OF TOTAL IN THAT CLASS	PROPORTION OF ORDERS EXECUTED AS PERCENTAGE OF TOTAL IN THAT CLASS	PERCENTAGE OF PASSIVE ORDERS	PERCENTAGE OF AGGRESSIVE ORDERS	PERCENTAGE OF DIRECTED ORDERS
Credit Suisse International		99.4%	99.0%	N/A	N/A	0.0%
Goodbody Stockbrokers		0.6%	1.0%	N/A	N/A	0.0%
N/A		N/A	N/A	N/A	N/A	0.0%
N/A		N/A	N/A	N/A	N/A	0.0%
N/A		N/A	N/A	N/A	N/A	0.0%

Execution Factors – Equities – Liquidity Band 3 and 4 - ‘Liquid equities’:

- > These represent orders that can generally be completed within 1 – 2 days
- > Special Client Order Instructions, acting in accordance with client direction, is considered of the highest importance when seeking to meet client expectations.
- > The nature of the order as received from the Investment Decision Maker is the next most important criteria for consideration; objective and intention of the portfolio manager, any order constraints such as price limits and level of urgency.
- > Price is subsequently considered a key measurable factor when assessing best execution.
- > Liquidity / Size is of increasing importance when trading larger size orders.

CLASS OF INSTRUMENT: (A) EQUITIES - SHARES & DEPOSITARY RECEIPTS - (III) TICK SIZE LIQUIDITY BANDS 1 AND 2 (FROM 0 TO 79 TRADES PER DAY)					
NOTIFICATION IF <1 AVERAGE TRADE PER BUSINESS DAY IN THE PREVIOUS YEAR		N	CLASS PERCENTAGE OF TOTAL EQUITY VOLUMES:		61.12%
TOP FIVE EXECUTION VENUES RANKED IN TERMS OF TRADING VOLUMES (DESCENDING ORDER)	PROPORTION OF VOLUME TRADED AS A PERCENTAGE OF TOTAL IN THAT CLASS	PROPORTION OF ORDERS EXECUTED AS PERCENTAGE OF TOTAL IN THAT CLASS	PERCENTAGE OF PASSIVE ORDERS	PERCENTAGE OF AGGRESSIVE ORDERS	PERCENTAGE OF DIRECTED ORDERS
Liquidnet Europe Limited	55.4%	11.9%	N/A	N/A	0.0%
Credit Suisse International	33.5%	89.1%	N/A	N/A	0.0%
Piper Jaffray Ltd.	2.7%	0.1%	N/A	N/A	0.0%
Bank of America Merrill Lynch	2.0%	1.1%	N/A	N/A	0.0%
CLSA Limited	1.9%	1.6%	N/A	N/A	0.0%

Execution Factors – Equities – Liquidity Band 1 and 2 - ‘Illiquid equities’:

- > These represent orders that generally take more than 5 days to complete
- > As with Liquid Equities described in the previous two tables Client Order Instruction and the Nature of the Order retains the highest order of importance.
- > Size and Liquidity factors are of growing importance when trading illiquid securities, and further consideration and care needs to be taken when selecting a venue for the avoidance of market impact (implicit cost) and information leakage. Price remains a key measurable factor for assessing best execution.
- > Likelihood of execution, costs and the speed of execution are less relevant as liquidity opportunity and natural contra flow and indications will take precedence.
- > The desk will primarily search for natural blockable liquidity to minimise market impact and signalling risk. This may take the form of searching indications of interest (IOIs), use of block discovery and matching platforms (such as Liquidnet) and the use of conditional order types on strategies accessing limited number of venues or exchanges (e.g. LIS indications on conditional venues like IEX).

CLASS OF INSTRUMENT:		(E) CURRENCY DERIVATIVES - (II) SWAPS, FORWARDS, AND OTHER CURRENCY DERIVATIVES			
NOTIFICATION IF <1 AVERAGE TRADE PER BUSINESS DAY IN THE PREVIOUS YEAR		N			
TOP FIVE EXECUTION VENUES RANKED IN TERMS OF TRADING VOLUMES (DESCENDING ORDER)	PROPORTION OF VOLUME TRADED AS A PERCENTAGE OF TOTAL IN THAT CLASS	PROPORTION OF ORDERS EXECUTED AS PERCENTAGE OF TOTAL IN THAT CLASS	PERCENTAGE OF PASSIVE ORDERS	PERCENTAGE OF AGGRESSIVE ORDERS	PERCENTAGE OF DIRECTED ORDERS
Northern Trust Company	58.56%	98.08%	N/A	N/A	0.0%
Royal Bank of Canada	25.12%	1.21%	N/A	N/A	0.0%
Bank of New York Mellon	9.54%	0.07%	N/A	N/A	0.0%
CACEIS Bank Luxembourg	6.77%	0.64%	N/A	N/A	100.0%

Execution Factors – Currency Derivatives – Swaps, forwards, and other currency derivatives:

- > Special Client Order Instructions, acting in accordance with client direction, is considered of the highest importance when seeking to meet client expectations. The nature of the order remains another key consideration.
- > Price is considered a key measurable factor when assessing best execution. Price is considered on an all-in basis (Spot Rate + Points).
- > Likelihood of execution and settlement is a key criteria when executing forward currency trades (Deliverable and Non-Deliverable Forwards). Currency Forwards trades can only be executed with counterparts who are approved and have the required documentation in place (ISDA agreements).
- > The extended settlement cycle of these instruments also means that counterparty exposure and risks are a key criteria when trading. The size of the trades and inherent underlying volatility elevates the counterparty risk as a criteria for consideration.

CLASS OF INSTRUMENT: (G) EQUITY DERIVATIVES - (I) OPTIONS AND FUTURES ADMITTED TO TRADING ON A TRADING VENUE					
NOTIFICATION IF <1 AVERAGE TRADE PER BUSINESS DAY IN THE PREVIOUS YEAR		Y			
TOP FIVE EXECUTION VENUES RANKED IN TERMS OF TRADING VOLUMES (DESCENDING ORDER)	PROPORTION OF VOLUME TRADED AS A PERCENTAGE OF TOTAL IN THAT CLASS	PROPORTION OF ORDERS EXECUTED AS PERCENTAGE OF TOTAL IN THAT CLASS	PERCENTAGE OF PASSIVE ORDERS	PERCENTAGE OF AGGRESSIVE ORDERS	PERCENTAGE OF DIRECTED ORDERS
Goldman Sachs International	100%	100%	N/A	N/A	0.0%

Execution Factors – Equity Derivatives – Options and Futures admitted to trading on a trading venue:

- > Special Client Order Instructions, acting in accordance with client direction, is considered of the highest importance when seeking to meet client expectations. The nature of the order remains another key consideration.
- > The nature of the order as received from the Investment Decision Maker is the next most important criteria for consideration
- > The infrequent nature, instrument types and size of these orders mean that Price is considered the key measurable factor when assessing best execution.
- > Likelihood of execution and settlement is a key criteria when executing. These instruments are cleared and subject to initial and daily variation margin and there is a pre-requisite for operational setup and documentation.

CLASS OF INSTRUMENT:		(H) SECURITISED DERIVATIVES - (I) WARRANTS AND CERTIFICATE DERIVATIVES			
NOTIFICATION IF <1 AVERAGE TRADE PER BUSINESS DAY IN THE PREVIOUS YEAR		Y			
TOP FIVE EXECUTION VENUES RANKED IN TERMS OF TRADING VOLUMES (DESCENDING ORDER)	PROPORTION OF VOLUME TRADED AS A PERCENTAGE OF TOTAL IN THAT CLASS	PROPORTION OF ORDERS EXECUTED AS PERCENTAGE OF TOTAL IN THAT CLASS	PERCENTAGE OF PASSIVE ORDERS	PERCENTAGE OF AGGRESSIVE ORDERS	PERCENTAGE OF DIRECTED ORDERS
Credit Suisse International	100%	100%	N/A	N/A	0.0%

Execution Factors – Securitised Derivatives – Warrants and Certificate Derivatives:

- > Client Order Instruction and the Nature of the Order retains the highest order of importance.
- > Securitised Derivatives can only be executed with counterparts who are approved and have the required documentation in place and operational procedures in place.
- > Price is considered a key measurable factor when assessing best execution.
- > Likelihood of execution and settlement is a key criteria when executing Securitised Derivatives.
- > The extended holding period lifecycle of these instruments also means that counterparty exposure risk is a key criteria when trading. The size of the trades and inherent underlying volatility elevates the counterparty risk as a criteria for consideration in these fully cash settled instruments.

CLASS OF INSTRUMENT: (K) EXCHANGE TRADED PRODUCTS (EXCHANGE TRADED FUNDS, EXCHANGE TRADED NOTES AND EXCHANGE TRADED COMMODITIES)					
NOTIFICATION IF <1 AVERAGE TRADE PER BUSINESS DAY IN THE PREVIOUS YEAR		Y			
TOP FIVE EXECUTION VENUES RANKED IN TERMS OF TRADING VOLUMES (DESCENDING ORDER)	PROPORTION OF VOLUME TRADED AS A PERCENTAGE OF TOTAL IN THAT CLASS	PROPORTION OF ORDERS EXECUTED AS PERCENTAGE OF TOTAL IN THAT CLASS	PERCENTAGE OF PASSIVE ORDERS	PERCENTAGE OF AGGRESSIVE ORDERS	PERCENTAGE OF DIRECTED ORDERS
Credit Suisse International	54.3%	63.6%	N/A	N/A	0.0%
Sanford Bernstein & Co LLC	36.9%	27.3%	N/A	N/A	0.0%
Goldman Sachs International	8.8%	9.1%	N/A	N/A	0.0%

Execution Factors – Exchange traded products (Exchange traded funds, exchange traded notes and exchange traded commodities):

- > Client Order Instruction and the Nature of the Order retains the highest order of importance.
- > The infrequent nature, instrument types and size of these orders mean that Price is considered the key measurable factor when assessing best execution.

CLASS OF INSTRUMENT:		(M) OTHER INSTRUMENTS – NON-EEA EQUITIES THAT ARE NOT ‘TRADED ON A TRADING VENUE’			
NOTIFICATION IF <1 AVERAGE TRADE PER BUSINESS DAY IN THE PREVIOUS YEAR		N	CLASS PERCENTAGE OF TOTAL EQUITY VOLUMES:		8.67%
TOP FIVE EXECUTION VENUES RANKED IN TERMS OF TRADING VOLUMES (DESCENDING ORDER)	PROPORTION OF VOLUME TRADED AS A PERCENTAGE OF TOTAL IN THAT CLASS	PROPORTION OF ORDERS EXECUTED AS PERCENTAGE OF TOTAL IN THAT CLASS	PERCENTAGE OF PASSIVE ORDERS	PERCENTAGE OF AGGRESSIVE ORDERS	PERCENTAGE OF DIRECTED ORDERS
Credit Suisse International	60.0%	89.3%	N/A	N/A	0.0%
Bank of America Merrill Lynch	16.2%	2.1%	N/A	N/A	0.0%
Liquidnet Europe Limited	10.4%	1.4%	N/A	N/A	0.0%
CLSA Limited	7.5%	6.2%	N/A	N/A	0.0%
Morgan Stanley & Co. International plc	4.0%	0.3%	N/A	N/A	0.0%

Execution Factors – Other instruments – Non-EEA Equities that are not ‘traded on a trading venue’:

- > The same factors that apply to EEA Equities that are traded on a trading venue apply to foreign equities. Please refer to the distinctions made in relation to liquid and illiquid equities in the earlier tables.