WALTER SCOTT

SINCE · 1983

MiFIR Article 65(6)
Best Execution Qualitative Analysis

Walter Scott & Partners Limited (Walter Scott) was established in 1983 to manage equity portfolios for institutional investors. This is the firm's sole business. Clients' money is invested on a discretionary basis in portfolios of listed global equities. Listed equity is the only class of MiFID II financial instrument that the firm deals in for client portfolios.

Walter Scott does not execute clients' orders; orders are placed with brokers for execution. The firm acts as agent and owes clients a duty of care when placing trades on their behalf. Walter Scott takes all sufficient steps to obtain the best possible result for clients taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order when selecting brokers. Broker selection is made in the pursuit of best execution for clients. Every trade is unique and the considerations highlighted above are variable in nature but can be broadly summarised as:

- **Price**: Markets in listed equities are generally considered liquid with in-depth price discovery. Walter Scott's broker selection is focussed on those brokers able to access fragmented markets and execute deals at market prices with minimum slippage and disruption. Whilst price is always a key focus it is not necessarily the only focus, particularly when trading larger orders.
- **Costs**: Explicit trade costs come primarily in the form of trade commissions paid to brokers from client portfolios. Negotiated commission rates are considered appropriate for the levels and types of execution services received from brokers. Commission rates are harmonised regionally across brokers by trade type allowing focus on minimising implicit costs. Implicit trade cost can be thought of as an opportunity cost and broker selection will always be made with intent to minimise those costs by minimising market impact and signalling trading activity.
- **Speed**: The speed of execution is not a fundamental concern when selecting brokers for Walter Scott as a long term buy-and-hold equity investor.
- **Likelihood of execution and settlement**: Investing in order driven listed equity markets clearing through central counterparties means these are not broker selection concerns for Walter Scott. In addition, protection of principal is generally afforded by delivery versus payment in the event of settlement failure (i.e. client portfolios are rarely short of both stock and cash).
- **Size**: Trade size is of primary concern for Walter Scott when placing large orders. Broker selection focusses on accessing trade volume, particularly natural liquidity, whilst minimising market impact and signalling trading activity to competing market participants.
- **Nature**: The nature of a trade and other considerations are important to Walter Scott's broker selection. Historical broker performance and reliability is of particular importance when executing large orders, or orders in less liquid stocks.

There has been no change to the process whereby brokers are generally engaged in an agency execution capacity with discretion as to the trading venues accessed. As such, when placing trades, the firm is reliant upon the electronic order handling technology, routing logic and venue selection methodology of executing brokers to access trading venues. However, in circumstances involving a sales-trader, the firm has significant control over orders.

Walter Scott is owned by The Bank of New York Mellon and is affiliated to a number of broker/dealers, however Walter Scott's policy is not to have any equity brokerage relationships with affiliated entities. Walter Scott has no ownership interest in any execution venues or brokers used for trade execution. The firm provides investment management services to a number of financial services organisations that also provide trade execution services. Walter Scott does not consider this a conflict of interest as they are subject to the same broker selection rules, Counterparty Approval/Review and Execution Policies as all other brokers.

Walter Scott is broker and venue agnostic and receives no third party payments or rebates for client order flow or trade execution. Entertainment and gifts received from brokers are logged and monitored by the firm's Risk and Compliance team. The Dealing team may receive external research deemed a minor non-monetary benefit to provide 'market colour'.

Walter Scott approves and maintains a list of counterparties which are authorised for equity trading. Formal reviews of each broker take place annually with all monitored on an on-going basis. The firm considers, reviews, approves and monitors brokers based on a number of factors which include review of the latest financial statements, settlement terms, terms of business and potential conflicts of interest. The approved broker list is reviewed on a quarterly basis with an assessment of the quality of execution services undertaken.

All Walter Scott's clients are categorised, via contract, as professional clients and therefore clients' order execution arrangements are not differentiated by client categorisation.

Walter Scott does not have any retail clients.

Walter Scott monitors broker execution outcomes using post-trade execution analysis. The analysis is used by a number of groups within the firm including the Dealing Desk and Trading Oversight Group; the latter reports to the firm's Investment Management Committee, a committee of Walter Scott's Board. Monitoring of broker trade outcomes is carried out during trade execution and when final executions are reported. Post-trade execution analysis carried out by the firm focusses on the general performance of each broker utilised to execute orders. All trades are assessed for quality of execution against a number of market price and volume metrics: individual execution prices are compared against the market over the trades duration; individual executions are analysed in aggregate for each broker; analysis between broker outcomes is performed to give a peer group comparison to identify persistently under or out performing broker execution; we do not analyse executions at the venue level. All analysis adjusts for market price action and liquidity conditions as well as the size and nature of each trade and execution requirement, particularly for large orders.

2017 Execution Analysis Conclusions:

Trades predominantly executed by brokers via electronic routes generally achieved prices that were close to the market volume weighted average price (VWAP) over the trading period. Where prices deviated from VWAP the deviations were explained by market price and volume action rather than any issue with routing logic or technology. Trades executed with a high degree of sales-trader interaction are analysed in much the same way as above but with a greater emphasis on trade volume relative to market. All trade execution outcomes were understood and considered acceptable.

When looking at individual broker execution quality in aggregate no broker persistently under-performed peers nor did any persistently out-perform peers. No trades were identified that suggested broker venue selection sacrificed execution quality. There were no instances where the firm's broker selection was infuenced by reasons other than the pursuit of best execution. Execution analysis did not result in any broker relationships being terminated on the grounds of poor quality of execution. No Dealing Desk process or arrangement was changed in response to an issue highlighted by execution analysis.

Data resulting from MiFID II disclosure relating to broker execution quality will be assessed as it becomes available.