

MIFIR ARTICLE 65(6)

BEST EXECUTION QUALITATIVE ANALYSIS

ANNUAL BEST EXECUTION DISCLOSURE - 1 JANUARY TO 31 DECEMBER 2020

Walter Scott & Partners Limited (Walter Scott) publishes below a summary of the analysis and conclusions drawn from detailed monitoring of the quality of execution obtained from brokers engaged to execute all client equity orders in 2020 in accordance with the European Market in Financial Instrument Directive 2014/65/EU (“MiFID II”).

Walter Scott was established in 1983 to manage equity portfolios for institutional investors. This remains the firm’s sole business. Client portfolios are invested on a discretionary basis in listed global equities. Listed equity is the only class of MiFID II financial instrument that the firm deals in for client portfolios.

EXECUTION FACTORS:

Walter Scott does not execute client 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. Broker selection is always made in pursuit of best execution taking all sufficient steps to obtain the best possible results for clients. The execution factors of price, costs, speed, likelihood of execution and settlement, size, nature of the trade and any other consideration relevant to the execution of the order are taken into account. Every trade is inherently unique as market conditions are never constant. The relevant importance of each execution factor is therefore variable however those generally of greatest importance are:

- **Price:** Markets in listed equities are generally considered liquid with in-depth price discovery. Walter Scott’s broker selection is focussed on those able to access liquidity (both natural counter-liquidity and across fragmented trading venues) and execute deals at market prices with minimum market impact and information leakage. Whilst price is always a key focus in every trade it is not the sole focus, particularly when trading larger block orders.
- **Size:** Trade size is of fundamental concern when placing large orders relative to market volume. Broker selection focusses on accessing liquidity, particularly natural counter-liquidity, whilst minimising market impact and signalling.
- **Costs:** Explicit trade costs come primarily in the form of trade commissions. Negotiated commission rates are broadly equitable across brokers, set with reference to industry peer group studies and considered appropriate for the levels and types of execution services received from brokers. Commission rates are harmonised by trade type regionally across brokers allowing focus on minimising implicit costs. Implicit trade cost can be thought of as opportunity cost and market impact; broker selection will always be made with the intent to minimise those costs.
- **Nature & Other Considerations:** 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.
- **Speed:** Speed of execution is not of fundamental concern for 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).

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DATA AND TOOLS EMPLOYED WHEN MONITORING EXECUTION QUALITY:

Transaction cost analysis (TCA) output is used by a number of groups within the firm including the Dealing Desk, Investment Operations, Risk & Compliance and Trading Oversight Group (TOG). The TOG reports to the firm's Investment Management Committee, a committee of Walter Scott's Board, and provides governance, oversight and challenge of the firm's dealing processes, arrangements and outcomes.

In-flight monitoring, assessment and adjustment to trade instruction is carried out by the firm's Dealing team during the trade execution process. Post trade execution analysis and monitoring is performed on all executions using an independent TCA tool. Tolerance exception levels used in the TCA tool are set by the TOG. Exception reports are generated on a daily basis for analysis, review and escalation. Formal quarterly execution analysis carried out by the firm focusses on the use and performance of each broker engaged to execute client orders and a summary of tolerance exceptions. 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 each trade's duration; executions by each broker are analysed in aggregate; analysis between broker outcomes is performed to give a peer group comparison; we do not currently analyse executions at the venue level. All analysis adjusts for underlying market price action and liquidity conditions as well as the size and nature of each trade and execution requirement, particularly for large orders.

2020 EXECUTION ANALYSIS CONCLUSIONS:

All equity executions were subject to detailed post-trade execution analysis. No fundamental or systematic issues were identified with broker executions in general; execution outcomes were understood and considered acceptable. Tolerance exception reports (execution price versus market price benchmark) were generally explained by market price and volume action rather than any issue with broker routing or venue selection. Individual broker execution quality identified no broker persistently under-performing, nor any persistently out-performing, peers. No trades were identified that suggested broker order handling or venue selection sacrificed execution quality. Analysis did not result in any broker relationships being terminated on the grounds of poor quality of execution.

There were no instances identified where Walter Scott's broker selection was influenced by reasons other than the pursuit of best execution. No dealing process or arrangement was changed in response to an issue highlighted by post trade execution analysis.

CHANGES TO EXECUTION VENUES LISTED IN THE FIRM'S EXECUTION POLICY DURING THE PERIOD:

Brokers are generally engaged in an agency execution capacity with discretion as to 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 fragmented trading venues. Broker use varies according to volume and type of orders traded over a period. 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.

CONFLICTS OF INTEREST, COMMON OWNERSHIP OR CLOSE LINKS:

The firm has no ownership or investment interest in any execution venues or brokers used for trade execution. 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 to have no equity brokerage relationships with affiliated entities. Investment management services are provided to a number of financial services organisations globally that also provide trade execution services to the firm. Walter Scott does not consider this a conflict of interest; they are subject to the same broker selection rules, Counterparty Approval/Review and Execution Policies as all other brokers. Entertainment and gifts received from brokers are logged and monitored by the firm's Risk & Compliance team.

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ARRANGEMENTS WITH EXECUTION VENUES:

Walter Scott is broker and execution venue agnostic and receives no third party payments or rebates for client order flow or trade execution. The Dealing team may receive external research from brokers deemed a minor non-monetary benefit to provide 'market colour'.

EXPLANATION OF HOW ORDER EXECUTION DIFFERS ACCORDING TO CLIENT CATEGORISATION:

Not applicable - All clients are contractually categorised as professional clients.

EXECUTION FOR RETAIL CLIENTS:

Not applicable - Walter Scott does not have any retail clients.

CONSOLIDATED TAPE USAGE:

Not applicable – There are no consolidated tape providers for European equities.

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