



# 2019 ORDER EXECUTION REPORT-FIXED INCOME

As part of the MiFID II Directive, which came into force on 3rd January 2018, NTGIL is required to summarise and make public on an annual basis, for each class of financial instruments as set out in the rules, the top five execution venues in terms of trading volumes where client orders were executed, or transmitted to a broker for execution, and information on the quality of execution obtained.

This document sets out the relevant data and analysis for 2019 Debt Instruments, broken down into the classes of Bonds and Money Market Instruments.

## BONDS

NTGIL's Fixed Income portfolio management team use a combination of electronic dealing systems, through which the majority of transactions are executed through trading platforms and conventional voice contact by telephone with brokers to execute trades, primarily in government and corporate debt securities but also including some other instruments, such as asset backed and mortgage backed securities.

For each instrument NTGIL executes orders on behalf of clients, NTGIL has selected venues that enable the best possible execution result on a consistent basis.

The generic term 'execution venue' is used to describe execution counterparties i.e. brokers, systems and trading venues (mainly multi-lateral trading facilities (MTFs), though the platforms obtained such status at different times during the year in advance of MiFID II implementation) that NTGIL's fixed income portfolio management team may use/access when executing orders in fixed income instruments.

## EXECUTION VENUES – PLATFORMS

| CLASS OF INSTRUMENT   |   | (B) DEBT INSTRUMENTS, (I) BONDS                           |                     |                        |                      |  |
|---|---|---|---------------------|------------------------|----------------------|--|
| Notification if <1 average trade per business day in the previous year          |   | No  |                     |                        |                      |  |
| Top Five Execution Venues ranked in terms of trading volumes (descending order) | Proportion of volume traded as a % of total in that class | Proportion of orders executed as % of total in that class | % of passive orders | % of aggressive orders | % of directed orders |  |
| BLOOMBERG(BMTF)   | 75.47%  | 46.81%  | NA                  | NA                     | NA                   |  |
| MARKETAXESS EUROPE LIMITED (MAEL)   | 24.53%  | 53.19%  |                     |                        |                      |  |

## VENUE SELECTION

The appropriate trading venue will largely be a function of the venues which the portfolio manager believes display the better liquidity characteristics for the securities in question.

Transactions are executed through MarketAxess for corporate bonds/credit with Bloomberg as a back-up venue or to enable access to quotes from brokers who do not provide coverage through the other platforms and also government, agency and ABS bonds.

Beyond the use of MTFs to route client orders, direct bilateral negotiation, (including with debt issuers and including primary issuance) voice trading (including transactions carried out for cash funds in short term debt instruments, many of which do not meet the definition of 'Money Market Instruments' under MiFID, which is based on their time to maturity when issued rather than when purchased) and transmission of orders to brokers to be executed off venue on market close (with the objective of achieving a price as close as possible to that of the benchmark index) for securities traded in jurisdictions outside European market hours such as Australian, New Zealand and Japanese government bonds, may also be used to execute client orders.

## EXECUTION VENUES - COUNTERPARTIES

| CLASS OF INSTRUMENT   |  | (B) DEBT INSTRUMENTS, (I) BONDS                           |                     |                        |                      |  |
|---|--|---|---------------------|------------------------|----------------------|--|
| Notification if <1 average trade per business day in the previous year          |  | No  |                     |                        |                      |  |
| 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 % of total in that class | % of passive orders | % of aggressive orders | % of directed orders |  |
| RABOBANK NEDERLAND (LONDON BRANCH)<br>(DG3RU1DBUFHT4ZF9WN62)                    | 44.29%   | 14.29%  | NA                  | NA                     | NA                   |  |
| TULLETT PREBON EUROPE LTD<br>(549300MU2MYJLOY6IJ51)                             | 13.04%   | 1.10%   | NA                  | NA                     | NA                   |  |
| HSBC BANK PLC<br>(MP6I5ZYZBEU3UXPYFY54)   | 12.90%   | 8.79%   | NA                  | NA                     | NA                   |  |
| CREDIT SUISSE SECURITIES (EUROPE) LIMITED<br>(DL6FFRRLF74S01HE2M14)             | 7.80%  | 7.69%   | NA                  | NA                     | NA                   |  |
| RBC EUROPE LTD<br>(TXDSU46SXBWIGJ8G8E98)  | 2.99%  | 8.79%   | NA                  | NA                     | NA                   |  |

All approved counterparties are hard coded into the appropriate order management systems to ensure no trading can be conducted unless a counterparty has been approved in accordance with NTGIL's Order Execution Policy and credit approval process.

The brokers indicated as the top five to which orders were transmitted reflect those that provided the most competitive terms for transactions in instruments traded during 2019, with some specific circumstances resulting in the inclusion of particular brokers. However in general those brokers indicated make up larger percentages of volumes/ trades than others on NTGIL's approved broker list on the basis of consistently competitive terms and/or wider coverage of instruments relative to others.

## EXECUTION ANALYSIS AND ARRANGEMENTS

NTGIL uses an aggregated electronic price service for the majority of its executions in active fixed income instruments. This service enables NTGIL to achieve the best possible execution result, as multiple prices can be discovered at a single point in time. NTGIL then selects the best available price from those presented. This electronic price service provides a full audit trail for the execution process. For passive fixed income, trading may also be conducted via telephone and trade files. Executions are monitored against the relevant benchmark, and are also referenced against pre-trade dealer quotes.

Execution factors of price, costs, speed, and likelihood of execution or any other relevant consideration are taken into account when dealing government and corporate bonds. In the event the portfolio manager has identified a price target for a specified security, while placing more importance on the price sought than the speed in executing the order, it remains incumbent on the portfolio manager to obtain the best possible price available at the time of trade and complete the transaction within any timeframe required (by client restrictions or to meet timely execution requirements).

When trading certain instruments, particularly illiquid securities, or when dealing in a large volume, greater importance may be placed on sourcing liquidity and likelihood of execution, in which case the order may be executed as a limit trade placed with an individual broker at a specified price. NTGIL conducts post trade analysis to monitor the results of such trading to confirm that best execution is achieved on a continuous basis.

Transaction cost analysis is carried out and regular scrutiny of brokers is carried out to ensure best execution continues to be achieved. Where possible, transactions are subject to periodic monitoring based on the variance of the price achieved compared to an appropriately determined benchmark (due to the current lack of transparency in the fixed income market, not all securities have sufficient trading data to determine a reliable benchmark price). Outliers are investigated by Compliance and escalated to the Head of the Fixed Income Portfolio Management team, for review and appropriate intervention where required.

The quality of execution obtained from each counterparty which acts as a 'broker' (defined as a third party which NTGIL faces in execution of a transaction is a debt security other than its own) is monitored both by the portfolio management team and compliance, with any materially poor performance escalated. The result of investigation of poor execution results obtained, for a trade or consistently by a particular broker, may result in escalation with the broker, cancellation or amendment of transactions, changes in the volume or types of order that may be sent or the removal of a broker from NTGIL's approved broker list.

## MONEY MARKET INSTRUMENTS

Money Market Instruments (1) are primarily traded for cash funds and cash collateral reinvestment (securities lending), managed by NTGIL's Fixed Income portfolio managers. The instruments are typically bespoke and a large percentage of money market instruments are purchased through primary issuance, either directly from the issuer or through a broker.

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1. <sup>1</sup> Defined as described in the Markets in Financial Instruments Directive: "...shall include treasury bills, certificates of deposits, commercial papers and other instruments with substantively equivalent features where they have the following characteristics: (a) they have a value that can be determined at any time; (b) they are not derivatives; (c) they have a maturity at issuance of 397 days or less."

## EXECUTION WITH BROKERS

| CLASS OF INSTRUMENT   | (B) DEBT INSTRUMENTS, (I) MONEY MARKET INSTRUMENTS        |   |                     |                        |                      |
|---|---|---|---------------------|------------------------|----------------------|
| Notification if <1 average trade per business day in the previous year          |   |   |                     |                        | No                   |
| Top Five Execution Venues ranked in terms of trading volumes (descending order) | Proportion of volume traded as a % of total in that class | Proportion of orders executed as % of total in that class | % of passive orders | % of aggressive orders | % of directed orders |
| RABOBANK NEDERLAND (LONDON BRANCH) (DG3RU1DBUFHT4ZF9WN62)                       | 23.91%  | 26.31%  | NA                  | NA                     | NA                   |
| BGC FINANCIAL LP (Eurobrokers) 549300NP4MIDUNET0550                             | 17.92%  | 10.61%  | NA                  | NA                     | NA                   |
| BRED BANQUE POPULAIRE (NICH5Q04ADUV9SN3Q390)                                    | 11.44%  | 11.81%  | NA                  | NA                     | NA                   |
| BARCLAYS BANK PLC (G5GSEF7VJP5I7OUK5573)  | 5.83%   | 7.17%   | NA                  | NA                     | NA                   |
| ICAP SECURITIES LIMITED (213800NMEZS3MD2IUP33)                                  | 5.82%   | 3.06%   | NA                  | NA                     | NA                   |

The highest percentage of money market instruments were traded through Rabobank due to the width of coverage and competitive terms offered. In addition, we have seen a decrease in focus from some Banks on selling Money Market securities, shifting their attention to reverse repurchase agreements.

As the majority of money market instruments are bespoke, purchases generally occur in the primary market and are not traded on venues while sales typically take place over the counter (OTC), while a new form of execution venue, Organised Trading Facilities, (OTFs) were created by MiFID II changes, we have not seen large volumes of instruments being admitted to trading through such venues. Additionally, those instruments we have seen admitted to trading may not be listed by the counterparty through which we purchased the security in the primary market. In the event our portfolio managers decide to sell such securities, there is currently no 'golden source' of information available to give a clear pre trade indication that the instrument is admitted to trading on a trading venue, or provide transparency on pricing available through such venues; our trading may continue to occur bilaterally.

## EXECUTION ANALYSIS AND ARRANGEMENTS

Cash is invested into various short term fixed income instruments and money market funds. Money Market Funds are managed by fixed income portfolio managers who are experts in dealing in such instruments. Due to the nature of the (OTC) short duration fixed income markets, liquidity and price will ordinarily merit a high relative importance in achieving the best possible execution result.

Importantly, unless dealt on the secondary market, money market instruments are bespoke investments created at the time of execution. Therefore while portfolio managers still seek to obtain the best available price for an instrument, the competing quote method is not an appropriate execution strategy in most circumstances.

Due to the limited supply of these bespoke securities speed of execution often ranks highly in the priority of execution factors for money market instruments. In particular there may be multiple venues offering differing indicative prices on the same security. Often the underlying indicative pricing is swap driven.

Practically, the process of requesting the indicative price, receiving a firm price significantly higher (we are invariably buying) than indicated and then repeating the process at a different venue can result in a lost opportunity whereby the limited supply has traded away. Therefore portfolio manager experience and knowledge of which venue/ broker is reflecting consistently reliable indicative pricing is a major aspect of the execution process.

The portfolio managers will deal in suitable money market instruments with due regard to individual client cash positions and portfolio construction considerations whilst adhering to applicable client guidelines, credit policies and NTAM's internal requirement.

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