Schroders

Order Execution and Placement Policy

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Section 1. Introduction

1.1 Purpose

This document is a description of Schroders' approach to order execution and the placement of orders. It has been written in order to meet the requirements of the second Markets in Financial Instruments Directive and associated regulations ("MiFID/R").

Following the end of the UK's transition away from the European Union on 31 December 2020, the UK's onshoring EU legislation was introduced. 'Onshoring' involved amending the relevant legislation and regulatory requirements so that they operate in a UK-only context. The onshoring process is designed to keep the status quo, with changes only being made where deficiencies arise in relation to the existing legislation. Therefore, Schroders' will continue to publish this document.

The requirements in respect of best execution can be summarised as follows:

- Investment Firms, which includes portfolio management firms, such as Schroders, must take all sufficient steps to obtain, when executing orders, the best possible result for their clients, taking into account price, costs, speed, likelihood of execution, likelihood of settlement, size, nature or any other consideration relevant to the execution of the order.
- Investment Firms will have an Order Execution Policy and an Order Placement Policy (this document combines the two) that detail the steps taken to obtain the best possible result:
  - The Policy must contain sufficient detail and be easily understood by clients.
  - Clients are to be informed where there are material changes to order execution arrangements or the Policy.
  - The Policy will list the different execution venues used in respect of each class of investment instrument; and describe the selection process for execution venues and the execution strategies employed.
  - For different types of order the Policy will describe how the characteristics of an order; the financial instrument to be traded; and the execution venues available influence how an order is executed and the relative importance of the execution factors: price, costs, speed, likelihood of execution, likelihood of settlement and size.
- Investment Firms will have procedures in place to monitor the effectiveness of their order execution arrangements in order to identify deficiencies and where appropriate correct them.

1.2 Scope

This Policy applies to the following:

i. Legal entities

MiFID/R and on-shored regulation specifically applies to the following entities:

- EU/UK Investment Firms and their Branches.
- Non-EU Counterparties when facing an EU/UK Investment Firm or the EU/UK Branch of non-EU/UK Entity.

Therefore, this Policy applies directly to the following entities:

- Schroder Investment Management Limited (and its Dubai and Paris Branches).
- Schroder Investment Management North America Limited (and it's Singapore Branch).
- Nippon Life Schroders Asset Management Limited.
- Schroder Investment Management (Europe) S.A., Frankfurt Branch.
- Schroder Investment Management (Europe) S. A., Suomen sivuliike

In addition to the above entities, the practices described in this Policy broadly apply to any wholly owned portfolio management firm in the Schroder Group when executing client orders. It does not apply to our Personal and Wealth Management businesses, which have their own Policies.

ii. Instruments

Schroders manage assets across a broad range of investment instruments and for the purpose of this Policy we have grouped them as follows:

- Equity and related securities.
- Fixed Income and related securities.
- Exchange Traded Derivatives.
- Over the Counter Derivatives.
- Foreign Exchange.

We believe that categorising the investment instruments in this way gives a fair representation of our execution processes.

iii. Professional clients

This Policy has been written for professional clients, as all the clients of the legal entities above have been classified in this category.

1.3 Specific client instructions

Where a client provides us with a specific instruction in relation to an entire order, or any particular aspect of an order, including selecting to execute on a particular venue or through a restricted broker list, we will execute that order in accordance with those instructions. This may, however, prevent us from following some or all of the other steps in this Policy that are designed to obtain the best possible result for the execution of the order. In following client instructions, we will be deemed to have taken all sufficient steps to provide the best possible result in respect of the aspects of the order covered by the instructions. In some circumstances, such orders may be traded after unrestricted client orders.

1.4 Restricted counterparty requirements

Some of our clients may not be able to trade with certain counterparties. This will be because certain counterparties are prohibited by their investment management agreement or for some other legal or operational reason that prevents the client from trading with the counterparty.

Restricting counterparty usage should be avoided wherever possible. Firstly, a restricted counterparty list is sub-optimal for a client as less counterparties to select from inevitably means a client is less likely to trade with the counterparty with the best price. Secondly, our execution procedures are designed to ensure the consistent treatment of all clients, and therefore the special requirements of one client could disadvantage other clients. Ordinarily, we aggregate client orders and therefore if the best positioned counterparty is a restricted counterparty for one client we would not be able to place the aggregated order with that counterparty. As a result, we would have to separate the order for the unrestricted clients and place it separately. Depending on the size and purpose of the restricted order, that order may have to be placed later.

1.5 Trading outside a trading venue

In respect of investment instruments that can be traded on a trading venue (a Regulated Market, a Multi-Lateral Trading Facility ("MTF"), or an Organised Trading Facility ("OTF")) it should be noted that, subject to a client's prior consent, some of the orders may be executed outside of the Regulated Market, an MTF, or an OTF where we believe that we can achieve the best possible result for execution of the order by doing so.

Where we execute outside a trading venue, or more specifically the settlement system of a trading venue, where that settlement process is not delivery versus payment a client may be subject to additional counterparty risk. This is mitigated by our counterparty credit risk assessment process, described in section 7.

1.6 Delegated portfolio management and execution

With the explicit authority of our clients, we sometimes delegate discretionary portfolio management and execution. The delegated entity may be outside the EEA or the UK and therefore not subject to MiFID/R or the on-shored regulation.

In respect of execution, any delegation would be within the Schroder Group. However, in respect of portfolio management, whilst this is generally a delegation to an entity in the Schroder Group this may not always be the case.

Where that entity is in the Schroder Group then the practices described in this Policy and our internal Group Order Management and Execution Policy apply. Where the entity is not in the Schroder Group then a Service Level Agreement will be in place to ensure that processes are in place to meet the requirements of our Group Order Management and Execution Policy. Where the practices described in this Policy conflict with local regulatory requirements, then the delegated entity will have to follow local regulatory requirements. In which case they are still required to act in our clients' best interests and to comply with the spirit of this Policy.

Section 2. Best Execution

The MiFID/R best execution requirement is that portfolio management firms take all sufficient steps to obtain, when executing orders, the best possible result for their clients. In general, best execution obligations similar to this apply in all the jurisdictions in which we operate.

When executing client orders there are a number of execution variables that are beyond the control of portfolio management firms and therefore best execution obligations recognise that the best result will not be achieved in every case. The best execution obligation is essentially the requirement to design and implement processes that are sufficient to deliver best execution outcomes consistently over time. This implies that there is a requirement to manage the execution variables that are within the control of the portfolio management firm effectively.

For illustrative purposes, we have listed below the types of variable that are likely to be within and outside a portfolio management firm's control.

Access to liquidity	We control the appointment of execution venues and therefore access to sufficient good quality execution opportunities.
Execution management	We control certain specific aspects of execution and placement: – The time we take to execute a trade. – The timing between individual placements within the overall lifetime of an order. – The limits or levels. – The price negotiation process.
Governance, organisation and capability	We control the technology we have deployed: – To manage orders and executions. – To assess market information and market conditions. – To access execution methods such as execution management Algorithms. – To analyse execution performance. We control the organisation of our trading teams and the governance and oversight of the execution process.
Client portfolio requirements	There are variables specific to client portfolios that may limit our ability to exercise full execution discretion, such as: – Counterparty restrictions. – Specific client instructions. – Cash-flows that must be traded at a certain point in time. – Portfolio size and therefore order size.
The market, its structure and conditions	Market conditions are outside our control. The execution strategy for a trade will depend on the amount of liquidity available and the market conditions at the start and throughout the duration of the trade. Therefore, if market conditions change the trading strategy may change. A particular market's structure is outside our control. The relative sophistication of a market will determine what technological infrastructure and analytics are available and this in turn will determine the extent to which transparent pricing information is available and the execution options available.

In summary, the best execution obligation requires a portfolio management firm to implement systems, processes, execution arrangements and a governance framework that are sufficient to:

- deliver best execution outcomes;
- monitor outcomes and therefore identify where they are sub-optimal;
- take action where outcomes are considered sub-optimal; and
- monitor market and technological developments to ensure that those systems, processes and execution arrangements are updated over time.

Whilst processes sufficient to deliver best execution are implemented ex-ante, whether best execution outcomes have been achieved can only be judged with hindsight.

In addition to best execution requirements our order management and execution processes take into consideration the following:

- the fair treatment of clients;
- the management of credit risk;
- the management of operational risk; and
- the adherence to any other regulatory requirements.

Section 3. Execution Factor Evaluation

The MiFID/R requirement is that investment firms consider the characteristics of an order including the type of instrument and the types of execution venue available in determining the relative importance of price, costs, speed, likelihood of execution, likelihood of settlement and size to the execution of that order.

We have defined the execution factors as follows:

Price

Price refers to the average price at which the whole order was executed.

The price includes the implicit costs of the trade, which are the opportunity costs incurred or benefits accrued as a result of the execution strategy over the lifetime of the order. This definition does not include explicit costs such as commissions.

The price achieved could be the best price immediately available at the time the Trader receives the order. However,

i. The size of the order may mean that liquidity at the best immediately available price is not sufficient to satisfy the whole order. Therefore, the order will have to be worked carefully over time utilising strategies that are sensitive to time and liquidity in order to avoid adverse price movements due to information leakage.

ii. Whilst there may be sufficient liquidity to execute the order in full, the market signals at the time the order is received may indicate that the price is going to move in favour of delaying execution.

Price will always be a factor and it is usually, but not always, the most important factor.

Costs

Cost refers to the explicit costs of execution, such as commission costs on equity trades and exchange traded derivatives.

In order to differentiate between price and cost, in this Policy we have limited the definition of cost to explicit costs. The bid/offer spread of an investment instrument is an implicit cost of trading and we have included this in the definition of price above.

Speed

Speed refers to the time taken to complete the whole order.

There are potential opportunity costs and benefits in the speed of execution. Current market conditions and advertised trading interests provide signals to the likely direction and momentum of the price of an instrument. Executing too quickly can increase market impact and may result in missed execution opportunities, whilst executing too slowly exposes the order to additional market risk.

Sometimes orders need to be executed urgently in order to reduce risk; close an unsuccessful investment strategy; crystallise gains; seize an investment opportunity; or to secure market exposure at a particular valuation point. This can result in an execution outcome that is worse than could have been achieved with a more patient strategy.

When speed is an important factor, it is important to have access to execution venues where liquidity is reliable and therefore likely to execute. Therefore, speed is closely linked to the likelihood of execution.

Likelihood of execution

The likelihood of execution refers to the probability that the whole order will be completed within a given time. In this Policy, it does not refer to a counterparty's ability to honour the contract. This is the likelihood of settlement.

Where speedy execution is required, we approach those counterparties that are most likely to be able to execute. Equally, those venues where liquidity can be illusory would be avoided.

Likelihood of settlement

The likelihood of settlement refers to the probability that an order will be settled or settled within the normal settlement cycle.

This is a more important factor in markets that do not have delivery versus payment or payment versus payment settlement processes. It is considered very carefully as part of our counterparty credit risk assessment process described in section 7.

In addition, the likelihood of settlement is important to our Foreign Exchange Traders when executing trade related foreign exchange trades to ensure that the underlying securities trades will settle on time.

Size

In this context, size refers to the objective of securing large execution fills rather than the size of the order itself, which is characteristic of the order rather than an execution factor.

The need to execute in size can be important when we want to either implement or exit a position quickly or where we wish to minimise the information leakage associated with smaller fills.

There is generally a trade off between size and price.

Section 4. The Execution Process

4.1 Execution venues and trading venues

Under MiFID/R an execution venue is defined as a Regulated Market (an exchange), an MTF, an OTF, a Systematic Internaliser, or a Market Maker or other liquidity provider or an entity that performs a similar function in a third country to the functions performed by any of the foregoing. Therefore, broadly speaking, an execution venue is either a trading venue or a counterparty.

A trading venue is an order book or market platform where buyers and sellers interact multi-laterally, posting orders or soliciting quotes via a request for quote ("RFQ") process or similar trading protocol. Regulated Markets, MTFs and OTFs are trading venues.

We are not members of the exchanges directly, but we have access to them via our counterparties and their electronic execution Algorithms and Smart Order Routers ("SORs"). We are members of certain other trading venues that are multi-lateral trading platforms. We use these trading venues to execute directly with counterparties or with the investment firm operator who matches our orders with other participants. The trading venues we access directly are listed in Appendix 1.

Where we execute with a counterparty directly the counterparty either executes a principal, or risk, trade or works an order in an agency trade. The counterparty will interact with other execution venues in order to lay off their risk or fill those orders.

A Systematic Internaliser is a type of counterparty, for example an Investment Bank, which executes client orders over the counter on its own account, outside a Regulated Market or other multilateral platform on an organised, frequent, systematic and substantial basis. Due to the extent of their trading activity in specific securities, and therefore their likely impact on the price formation process, certain entities have to trade as Systematic Internalisers in those securities and comply with the relevant MiFID/R price disclosure rules. The counterparties on whom we place significant reliance are listed in Appendix 1.

4.2 Agency or principal

When we execute or place orders for a client, we are acting as a client's agent. Regardless of the method of execution a client's portfolio executes on a principal to principal basis with the counterparties we select.

When we deal with counterparties for a client, on a trading venue or directly, an order can either be executed as a "principal trade" or placed as an "agency trade". The child orders of the same parent order could be dealt as both principal and agency trades.

– **Principal Trade**

  Where a counterparty is acting in a principal trade they will execute at a risk price, take the position onto their balance sheet and manage the market risk arising. The principal trade execution process is often executed on an RFQ basis. An RFQ process is common in markets with no exchange, sometimes referred to as "dealer" markets, such as fixed income, foreign exchange and OTC derivative markets. However, the same process can also exist in markets that have an exchange when trading in larger sizes.

– **Agency Trade**

  Where a counterparty, or their Algorithm, is acting on a purely agency basis they are receiving and then transmitting the order to the most appropriate execution venue. The market impact or opportunity cost will be absorbed within the execution price. They send the order to other execution venues, being exchanges, multi-lateral trading venues or counterparties. The counterparty does not take on any risk and is used for their expertise and access to liquidity. This is also referred to as riskless principal trading.

Section 5. Execution Venue Selection

5.1 Execution venue selection

There are two levels of execution venue selection:

– In the first instance we select the population of counterparties, trading venues and electronic execution Algorithms we use on an ongoing basis.

– Then we select the counterparties, trading venues and electronic execution Algorithms we use for each particular order.

This section describes how we select and monitor the population we trade with on an ongoing basis.

5.2 Counterparty credit risk assessment

Where trading with a counterparty or on a particular trading venue will expose a client to some counterparty credit risk then that risk is reviewed by our Group Credit Risk Team. Our process is not to trade with any entity without that entity having been reviewed. This process is described in section 7.

5.3 Trading venues

We have access to a large number of trading venues via our counterparties, but we have access to relatively few directly. The ones we have access to directly are the large multi-lateral venues in their relevant markets, such as Tradeweb, MarketAxess, Bloomberg, FX Connect and FXall.

The decision to use a trading venue is primarily based on their market coverage and liquidity. We enter into contractual agreements with the trading venues we use. We undertake an operational assessment that includes understanding: the venue's trading practices and procedures, including operational controls; the nature of the other market participants; the ability to limit or prohibit interaction with other market participants; information security; and business continuity arrangements.

5.4 Counterparties

Each of our trading desks has a process for the selection of the population of counterparties they use. The selection criteria vary across the desks, but the factors evaluated are typically as follows:

Market coverage	This covers market share, the instruments covered and the liquidity the counterparty has access to.
Trading competitiveness and competence	This covers the willingness to commit capital; price competitiveness; the promptness of execution and quote responsiveness; and the perceived quality of the trading team.
Operational capability	This covers desk to desk electronic communication, such as FIX protocol; trade matching, confirmation and settlement efficiency; the collateral management process; and their responsiveness to other operational requests.
Documentation capability	This covers their competency and efficiency in negotiating legal documentation. Documentation is a pre-requisite to trading in derivatives markets.

5.5 Electronic execution algorithms

Algorithms and SORs are used for the execution of some equity, foreign exchange and exchange traded derivatives orders. We do not have any proprietary execution Algorithms; we utilise Algorithms and SORs provided by our counterparties. However, we assist, through feedback, our counterparty providers with the development of their electronic execution methods.

The Algorithm used depends on the characteristics of the order and the prevailing market conditions. Algorithms are programmed to execute various strategies, such as, sourcing the best immediately available price; working an order over time or at a particular volume participation rate; or managing an order to a particular execution benchmark.

The Algorithms we use are subject to an assessment process, which includes:

– The execution methodology, including its routing logic, the execution venues and market participants it interacts with, and, where necessary, the ability to limit or prohibit the interaction of our orders with the orders of certain types of market participant.

– The provider's oversight of best execution and market practices.

– The execution details we will be provided with in order to assess execution quality.

– The system's resilience to outages and availability in times of market stress.

– The confidentiality of our order flow.

The process is driven by an industry standard questionnaire, where one exists, or our own bespoke questionnaire otherwise.

5.6 Execution venue assessment

We monitor the performance of the execution venues and the Algorithms we use on an ongoing basis through a combination of processes:

i. Discussions between our Traders and our counterparties on an order by order basis.

ii. We use transaction cost analysis ("TCA") to assess trading performance for equities, foreign exchange and fixed income, where data is available. This data is reviewed to identify outliers, individual executions that have a high cost, and to analyse trading strategy and counterparty execution performance. The TCA data is reviewed weekly by the trading teams and by the Trading Performance Oversight Committees on a quarterly basis.

   The TCA data relating to algorithmic executions is analysed to compare Algorithm performance. The performance of algorithmic execution strategies specifically is reviewed at the Trading Performance Oversight Committees and separate electronic trading meetings on a quarterly basis.

iii. For investment instruments not covered by TCA there are alternative execution review processes involving the Traders, Portfolio Managers and Compliance to consider execution processes and quality retrospectively.

iv. Counterparties are subject to ongoing review and the major counterparties have formal reviews on a regular basis. Reviews are based on our own internal analysis of their performance and we will also take in consideration execution information published by the counterparty where useful.

Section 6. Execution Management

6.1 Order management

Our order management process is governed by our internal Group Order Management and Execution Policy and related procedures. In summary, order handling operates as follows:

– Orders are pre-allocated to portfolios.

– Orders are generally aggregated, subject to some exceptions permitted by our internal processes, and then executed as a combined block. We aggregate where it is unlikely that aggregation will work to the disadvantage of the portfolios aggregated.

– Where there are orders in the opposite direction in the same security then we will look to “cross” that security from one client’s portfolio to another, where permitted to. Where we cross we follow a set of principles set out in our internal Policy that ensure that the price is consistent with best execution, advantageous to both clients and executed by one of our counterparties in the market, subject to limited exceptions overseen by Compliance.

– Where an order is not executed in full, partial executions are allocated on a fair and reasonable basis in accordance with the requirements of our internal processes. This is generally on a pro-rata basis, subject to amendment, such as when the allocation falls below a security’s minimum tradable size. On occasion this may operate to the advantage or disadvantage of a portfolio.

– Where we judge that aggregation, and the resulting allocation, is likely to lead to the disadvantage of a portfolio on a consistent basis then we permit derogations from the aggregation process. This could occur where: a very small portfolio is aggregated with larger portfolios; the security has a minimum tradeable size; and the order is filled over multiple fills. As a result, for each fill the small portfolio’s pro-rata allocation is likely to be below 50% of the minimum trade size and therefore rounded down to a zero allocation and therefore the small portfolio’s order is unlikely to receive an allocation until the last fill. In these circumstances we may manually amend the allocation so that the small portfolio shares some of the earlier fills.

In respect of new issues and placements, we allocate the supply in accordance with the principles set out in the internal Policy:

– Orders should reflect a position the Portfolio Manager is comfortable to hold for the long term.

– The proposed position should be commensurate with current positions in the portfolio, taking into account the conviction in the new issue relative to current positions held in the portfolio.

– Orders should be pre-allocated to specific client mandates.

– Orders when placed should observe the risk profile of the mandate.

– Expressions of interest should be based on real demand, there must be no inflation of order numbers.

6.2 Execution strategies

The execution strategies described in the following represent general principles rather than prescriptive processes. It is not possible to be prescriptive as the permutations of order characteristics and market conditions are too numerous. Changing market conditions mean that a well conceived strategy is subject to change at any point in time.

Our Traders have full discretion in determining the most appropriate venue and execution strategy on an order by order basis, subject to client and Portfolio Manager specific instructions; and the counterparties available to the client. We rely on the experience of our trading teams to make sound judgements based on the prevailing market conditions. We have implemented real time market information, trading analytics software and market intelligence services in order to ensure we have the capability to assess those conditions.

6.3 Equities and related securities

Investment Instruments

Orders in common and preferred stocks; depositary receipts; contracts for difference; exchange traded funds; and "delta one" structured products such as equity linked notes and low exercise price options and warrants are executed by our Equity Traders.

Market

Equity markets are often fragmented, which means that liquidity in a security can be spread across execution venues, both trading venues and counterparties, and all liquidity may not be immediately visible. As a result, our process is designed to ensure we have access to sufficient execution venues to deliver best execution. In general, equity market liquidity can be found:

On stock exchanges	Under MiFID/R, these are referred to as Regulated Markets; are authorised by a national regulator; and follow prescribed rules in terms of being open to the public, hours of opening and price transparency.
On multi-lateral trading facilities	MTFs are also authorised by national regulators and therefore have to operate under rules that are similar to, but not the same as, Regulated Markets. They are managed by individual brokers, consortiums or other approved market operators. They can control who participates in the market.
Off trading venues	The MiFID/R trading obligation requires that, securities are ultimately executed on a Regulated Market, an MTF; an OTF; a Systematic Internaliser; or on the trading venue of a third country where that trading venue has been assessed as equivalent. Therefore, in addition to RMs and MTFs we execute orders with Systematic Internalisers or with other counterparties on an over the counter basis. In addition, outside the EEA/UK orders can be executed on a counterparty's Broker Crossing Network ("BCN"). BCNs are internal exchanges set up by brokers in order to attract liquidity to maximize their internal crossing opportunities. In the US, orders can be executed on venues called Alternative Trading Systems, which operate in a manner similar to BCNs.

Process

Equity related orders are raised on and processed through our order management system ("OMS"). The trading blotter of our OMS has electronic connectivity, via FIX protocol, to an execution management system ("EMS") that connects electronically to execution Algorithms and to other multi-lateral trading platforms sometimes referred to as Crossing Networks. This facilitates electronic or "low touch" execution. The EMS enables us to incorporate new algorithmic trading strategies into our traders' toolset as and when required.

Additionally, we instruct counterparties by phone and market messaging services. This is sometimes referred to as voice execution or "high touch" to differentiate it from the electronic execution methods above. Where we instruct by phone or message the orders are also communicated by FIX protocol where possible.

Typical execution strategies

The execution approach is determined by assessing the inherent characteristics of the order against the backdrop of the prevailing market conditions. Market conditions are assessed using generic market data sources and specific trading analytics software that analyses historic and current market conditions and trading information to assess the available liquidity and formulate the trading strategy. Making sound pre-trade decisions is crucial to minimise the implicit costs of trading.

Electronic execution methods incur lower commission rates and therefore we favour these where we believe that the best combination of price and costs can be achieved. We use a number of Crossing Networks and Algorithms for electronic execution.

Crossing Networks are multilateral trading venues that facilitate the interaction of orders from portfolio management firms and counterparties. They provide access to anonymous, natural liquidity in both small and large blocks. Crossing Networks, being anonymous, are attractive to all portfolio management firms looking to execute large blocks.

Algorithms provide us with execution strategies that enable us: to access the market anonymously; to search dark venues for liquidity; and to apply an execution strategy that best fits the investment objective of the order.

Unless we believe we can improve execution by instructing a counterparty directly, in a high touch order, we will use a low touch method.

High touch orders are likely to be large orders relative to average daily volume ("ADV"); orders in illiquid stocks; orders in specialist markets, such as some emerging markets and mid and small cap stocks; or where execution is urgent. As a result, broker expertise or capital is required to execute the order. High touch orders may be executed as follows:

i. Searching market information for indications that there are large blocks of natural liquidity available.

ii. Contacting specialist brokers to instruct them to locate blocks of natural liquidity for us.

iii. Executing a principal trade via an RFQ process or contacting a single counterparty we know will price competitively.

There is a trade off between progressing an order in multiple fills, whilst signalling the order to the market, and waiting for a large block to be filled, whilst risking adverse market movements. Therefore, if speed of execution is important we give due consideration to executing a principal trade.

High and low touch methods can be used simultaneously, for example we may ask a counterparty to source block liquidity while we work the order in a low touch strategy.

Program or list orders are an order in multiple different stocks and are normally a slice of a portfolio raised to fund an outflow or to invest an inflow. These orders can be placed as an entire list or a reduced list with some stocks removed and placed separately, in order to achieve the best outcome for the list and the individual stocks. A list order can be executed as an agency or a principal trade. Generally, list trades are relatively low ADV and therefore they will be executed electronically via an Algorithm. As a list is treated as one order, a lower aggregate commission rate may be achieved than would be if the orders were executed as individual orders.

List trades may have to be executed at a valuation point and are therefore urgent. Consequently, where the order is larger in size we can execute it as a principal trade. In which case counterparties are put in competition. We disclose the generic characteristics of the order: liquidity, sector breakdown and tracking error and the brokers submit quotes on this basis. Executions are then filled at the mid or last traded price.

Depository Receipts are traded like equities. Contracts for difference are traded like equities with the counterparty giving up the trades to the Prime Broker of the client, although in certain countries the executing counterparty has to be the Prime Broker.

ETFs are typically traded on an RFQ basis either as a creation or redemption or as a principal trade with a counterparty willing to make a risk price. Trades are executed with ETF Authorised Participants ("APs") in larger sizes. APs are ETF market makers appointed by the ETF Manager.

The terms of delta one products, like participatory notes, are negotiated with the counterparty and the underlying stock is priced at the closing price of the relevant exchange.

Execution factor assessment

Factor	Relative importance
Price	Ordinarily, price is the most important factor.

	For low touch orders price and explicit cost are the most important factors as factors such as speed, likelihood of execution and settlement; and size are a given. For high touch orders price may become less important than the need to execute at speed or the need to execute in larger size to avoid the impact of information leakage on price. It may be more important to either exit or implement the investment idea than to improve the execution price.
Cost	We set commission costs by market and the method of execution, "high touch" or "low touch". We pay the same commissions to all brokers. Low touch orders, executed via electronic Algorithms and Crossing Networks, have lower rates than high touch orders and therefore this is an important factor, with price, in the choice of execution method.
Speed	There are certain occasions when speed will be more important than price. This could occur when a Portfolio Manager wishes to implement or exit an investment strategy urgently; or where we have to invest or divest at a valuation point.
Likelihood of execution	Likelihood of execution would become the most important factor when speed does.
Likelihood of settlement	For equity trades this is not an important consideration for the trading desk. An assessment of the settlement process in specific markets is factored into the credit assessment of the execution venues. Ordinarily equity markets have a delivery versus payment process. However, where there is an unacceptable level of settlement risk in a particular market, alternative instruments, such as depository receipts, are likely to be used by the Portfolio Manager, to avoid the local market.
Size	The need to execute in size can be important when we want to either implement or exit a position quickly or where we wish to minimise market impact due to the information leakage associated with smaller fills.

6.4 Fixed Income and related securities

Investment instruments

Orders in sovereign bonds, corporate bonds, insurance linked bonds, convertible bonds, asset backed securities, money market instruments and term deposits are executed by our Fixed Income Traders.

Market

The majority of orders in fixed income instruments are executed on a principal trade basis. Trades are executed on one of the market's trading venues, multi-lateral trading platforms such as Tradeweb, or directly with counterparties. In addition to principal type trades, orders can be placed with counterparties to work on an agency trade basis. In summary liquidity is located:

On multi-lateral trading platforms	Multi-lateral trading platforms, such as Tradeweb, Bloomberg or MarketAxess, where participants interact on an RFQ basis, or similar trading protocol, or where participants are matched according to the market rules of the platform investment firm operator.
Off trading venue	By direct interaction with counterparties outside a trading venue. This includes counterparties operating as Systematic Internalisers in the EEA/UK.

Process

Fixed Income orders are raised and processed through our OMS. Where we execute on a trading venue the trading blotter of our OMS communicates directly via FIX protocol. Where we execute with counterparties directly we communicate by phone and market messaging services with the orders being communicated by FIX protocol, where possible.

Typical execution strategies

The execution approach is determined by assessing the inherent characteristics of the order against the backdrop of current trading activity in the bonds and market conditions. We understand the core strengths of our counterparties and we have access to market trading platforms and market intelligence services in order to understand current trading activity and the interest in the bonds we are trading.

Orders in liquid bonds, where there is sufficient liquidity to execute the order with little market impact, are managed on a low touch basis. Low touch orders would typically be in government, government agency, supranational and investment grade corporate bonds.

Ordinarily, low touch orders are executed on one of the multi-lateral trading platforms via an RFQ process. And where the characteristics of the order meet certain rules based criteria, such as size and duration, then they can be automatically routed into the RFQ process. Otherwise, we will source quotes from counterparties based on our knowledge of their core strengths, their likely positioning, willingness to quote and current advertised interest in the bond. An RFQ process can be executed on a multi-lateral trading platform or directly with the counterparties. Typically, we will obtain between two and five quotes.

High touch orders require a greater level of Trader and counterparty management. High touch orders are large in size relative to the market or orders in illiquid investments and therefore likely to have a market impact. High touch orders are likely to be in; high yield bonds; emerging market bonds; insurance linked bonds; asset backed securities; and longer or very short dated bonds where there may be few active market participants.

The Trader will approach more than one counterparty to quote where they think this will not adversely affect the price. However, sourcing competing quotes involves disclosing information about trading intentions and can have an adverse impact on the price achieved. Therefore, a Trader has discretion to approach a single counterparty. In addition, in certain markets, where there is less standardisation, such as asset backed securities, buyers and sellers will advertise their interest in trading certain bonds and market participants will bid for those bonds based on their calculations of fair value.

High touch orders can be executed on a principal trade or agency trade basis, or a combination of the two. An order may be split into smaller pieces, where some will be filled in the immediately available liquidity before contacting a trusted counterparty to execute or work the remaining order.

The prices achieved are compared to market quotes and the execution information from the trading platforms, market intelligence services and market data providers we have access to.

On occasion in order to manage the overall execution price we may combine orders into packages. This enables a counterparty to quote on the net risk of the trade rather than the gross risk of the separate trades. In addition to package trades on occasion we may need trade all or a significant number of the holdings of a portfolio at once. This is referred to as a “portfolio trade”. This is normally the case where there is a time constraint associated with the trade. As a consequence, in a portfolio trade certainty of execution of all of the bonds in the portfolio becomes a more important execution factor that obtaining the best price for each of the bonds in the portfolio.

Term deposits

Where we place cash on deposit, we seek the most competitive rates from the banks that are on the relevant approved counterparty list. The relevant list will either be our own approved list or one supplied by the client, where shorter. The Portfolio Manager is responsible for ensuring that a sufficient number of different banks are used so that counterparty concentration risk is managed. Deposits are placed in client named accounts. This ensures that client funds are ring fenced from our own obligations.

Execution factor assessment

Factor	Relative importance
Price	Ordinarily, price is the most important factor. For high touch orders price may become less important than the need to execute at speed or the need to execute in larger size to avoid the impact of information leakage on price. It may be more important to either exit or implement the investment idea than to improve the execution price.
Cost	Commissions are not charged on fixed income securities and therefore cost, according to the definition in this Policy, is not an execution factor considered.
Speed	There are certain occasions when speed will be more important than price. This could occur when a Portfolio Manager wishes to implement or exit an investment strategy urgently; or where we have to invest or divest at a valuation point.
Likelihood of execution	Likelihood of execution would become the most important factor when speed does. There are scenarios where securing the purchase or sale of a security within a given timeframe becomes the most important factor. This could be when trading in illiquid markets or where trading a portfolio of bonds as part of a point in time critical transaction.
Likelihood of settlement	Ordinarily, the bond markets in which we operate have delivery versus payment settlement processes and therefore this is not an important factor. In those markets that do not operate a delivery versus payment settlement process our credit risk assessment process is to only approve the strongest counterparties in the market. For time deposits, we only place deposits with those banks approved for the purpose by the Group Credit Risk Team.
Size	Execution size will be important for large trades and as a result, price may become a less important factor.

6.5 Exchange traded derivatives

Investment instruments

Orders in exchange traded derivatives in equity, fixed income, foreign exchange and commodity related futures and options are executed by our Equity, Fixed Income, Foreign Exchange and Portfolio Solutions Traders.

Market

Exchange traded derivatives are ultimately executed on the order books of the relevant exchanges. We are not exchange members and therefore we place orders with counterparties who are members. They route the order to the exchange or match it with other orders they are managing. In addition to placing orders with counterparties, liquidity can also be accessed by trading with a counterparty in a principal trade.

In general, exchange traded derivatives are not fungible and therefore they can only be executed on one trading venue. As a result, principal trades apart, as there is only the exchange price, timing is generally the most important factor in determining the execution outcome.

Process

Exchange traded derivative orders are raised and processed through our OMS. The trading blotter of our OMS has electronic connectivity to a selection of Algorithms via the execution management systems we employ.

Additionally, we instruct our counterparties by phone and market messaging services. Where we do, orders are also communicated electronically by FIX protocol, where possible.

Typical execution strategies

Orders that should have little market impact are sent to a counterparty for immediate execution on the relevant exchange. Where we need to manage the implicit costs of the trade more closely orders are placed with a counterparty to work or placed via the appropriate Algorithm, where available. Where required, there is ongoing dialogue between our Traders and the counterparty, to ensure that the order is worked appropriately.

Larger orders, where speed of execution is critical, may be executed as a principal trade. In which case we either place counterparties in competition or select a single counterparty to execute. The selection of one counterparty may be appropriate where we wish to limit information leakage or avoid the delay implicit in an RFQ process. Where we select a single counterparty, we will have a view on the spread away from the current exchange price that is acceptable; and in some contracts and trade sizes, we have negotiated standard spread levels with counterparties. The fairness of execution prices is checked to exchange prices.

When futures contracts are approaching their expiry date and the Portfolio Manager wishes to maintain market exposure, the contracts are rolled. This means that the current contract is either purchased or sold, depending on whether it is short or long, and a new contract with a future expiry date is sold or purchased. For bond and commodity futures this also means that the position is maintained in futures, rather than having to deliver or receive the underlying asset on the delivery date.

In advance of the expiry date, the Traders and the portfolio management teams discuss the number of contracts to be rolled. Trading activity in the contracts with the next and subsequent expiry dates increases in the days ahead of the current expiry date. We organise the rolling process in advance of the expiry date in order to trade in sufficient liquidity to secure the best outcome. Depending on market conditions, our execution strategy may involve: placing orders on the bid or offer, to avoid paying the spread if momentum is in our favour; trading with counterparties who are advertising a trading interest; or placing counterparties in competition, where based on the market's positioning we will have a view as to the fair value of the contract. In addition, where we have clients with opposing long and short positions these may be crossed.

Rolling futures incurs a trading cost, therefore it can be beneficial to reduce the number of rolls. Therefore, subject to there being a contract available and it trades with sufficient liquidity, we may look to take the opportunity to roll into an expiry that is longer than the next available expiry date.

Execution factor assessment

Factor	Relative importance
Price	Ordinarily, price is the most important factor.
Cost	Explicit cost is not an important factor. Where execution commissions are negotiated by Schroders they are the same for any given contract for all counterparties. Execution commission for a "voice" trade can be different from the commission for a trade placed electronically. However, the difference in explicit cost are not significant enough to influence execution strategy.
Speed	There are occasions when speed will be more important than price. This could occur when a Portfolio Manager wishes to implement or exit an investment strategy quickly.
Likelihood of execution	Likelihood of execution would become the most important factor when speed does.
Likelihood of settlement	Exchange traded derivatives settle via central clearing processes and therefore this is a less important factor.
Size	Fill size will be important for large block trades executed as a principal trade.

6.6 Over the counter derivatives

Investment instruments

Generally, it is our Fixed Income and Portfolio Solutions Traders who execute over the counter ("OTC") derivative transactions. We execute orders in interest rate swaps, inflation linked swaps, credit default swaps, total return swaps, swaptions and other OTC options and repurchase agreements.

Market

OTC derivatives are usually traded on a principal trade basis rather than on a trading venue. However, in some instances regulations require that certain derivatives are traded on an organised market. This is currently the case for certain fixed-to-floating interest rate swaps and certain index credit default swaps, which are required to be executed on a Swap Execution Facility ("SEF"). In Europe some clients may be subject to the MiFID/R Derivative Trading Obligation which requires certain derivatives to be executed on an appropriately authorised or recognised trading venue such as a Multilateral Trading Facility ("MTF"). We utilise the SEF and MTF offered by one of the market platform operators for these trades.

The nature of OTC derivatives means that they are only traded for clients where the appropriate legal documentation is in place between the client and counterparties. This can limit the number of counterparties available for some clients.

OTC derivatives are usually collateralised under bilateral trading agreements or through a Central Clearing Party ("CCP"), under a clearing agreement. Some of our clients operate under their own bilateral ISDA agreements and some under the umbrella ISDA agreements we have negotiated with each of our counterparties. For repurchase agreements, trades are executed under GMRA or MRA documentation. For centrally cleared derivatives, clients can sign up to a Cleared Derivatives Execution Agreement ("CDEA") with each of our counterparties. However, there are circumstances where we permit centrally cleared trading without a CDEA; this is where the counterparty has given permission and trades are executed on a SEF. Executions with these counterparties are then "given up" to a clearing broker to be cleared at a CCP, so that the client faces the CCP under all of those cleared OTC transactions with collateral/margin being managed within the central clearing process.

Process

Orders for OTC derivatives are raised in our OMS, or in limited cases, raised on specific derivative trade templates. Traders instruct these orders by a combination of phone call, market messaging services, email (for certain bespoke derivatives) or placed via a trading platform, such as the SEF mentioned above.

Typical execution strategies

Vanilla interest rate, inflation linked, credit default swaps and repurchase agreements are actively traded in highly liquid inter-bank markets where there are a large number of participants quoting on a continuous basis. Therefore, orders that are standard market size are executed on an RFQ basis where we typically ask between two and five counterparties to quote, taking the best quote. We select counterparties based on current market quotes and advertised interest. Where the market structure is in place and the client permits we will look to execute derivatives on a centrally cleared basis where this is likely to result in the best outcome.

For larger orders, in vanilla OTC derivatives, in order to avoid information leakage we may ask a single counterparty to quote.

When executing orders in bespoke OTC derivatives, such as total return swaps on equity and commodity indices or gilt returns and OTC options there is no actively traded market and therefore limited price information immediately pre-trade. However, our Traders are engaged with our counterparties on an on-going basis and play an active role in the price discovery process and therefore have a sound understanding of what the fair price is for the instruments they execute.

For bespoke OTC derivatives we select counterparties who have proven execution capability in the particular instrument and who have delivered highly ranked recent execution performance. In addition, we will periodically re-introduce counterparties who had been excluded from recent selection in order to reassess their execution competitiveness. The number of counterparties put in competition can vary and it can be the case that where execution speed is important, a smaller number of counterparties are approached.

The fairness of the quotes received is sense checked against a combination of other prevailing and recent market quotes and internal pricing models.

In certain circumstances, the execution decision will consider a combination of factors. For example, where an instrument has a break fee for terminating the contract ahead of maturity then, on occasion, the best outcome will be to accept a higher execution price with a lower break fee. Our objective is to achieve best execution over time, and for this reason, it may be appropriate not to deal with the counterparty with the best price on a particular transaction, if there is an expectation that this may create an opportunity to deal at a better price on a subsequent transaction.

Execution factor assessment

Factor	Relative importance
Price	Ordinarily, price or the all-in economics, including any break fee, will be the most important factor.
Cost	Commissions are not charged on OTC derivatives and therefore cost is not an execution factor.
Speed	There are certain occasions when speed will be more important than price. This could occur when a Portfolio Manager wishes to implement or exit an investment strategy quickly.
Likelihood of execution	Likelihood of execution would become an important factor when speed of execution has high importance.
Likelihood of settlement	In OTC markets, this is an important factor. The risk is mitigated through the counterparty credit risk assessment and, in the vast majority of cases, we have collateral management arrangements in place. As a result, whilst this is an important factor overall, ordinarily, this is not an important consideration in the execution strategy deployed by the Trader.
Size	Execution size will be important for large trades and as a result, price will become less important.

6.7 Foreign exchange

Investment instruments

Our Foreign Exchange Traders execute foreign exchange for trade settlement and investment purposes. We execute spot, forwards, foreign exchange swaps, non-deliverable forwards ("NDF") and OTC foreign exchange options.

We execute foreign exchange trades for most of our clients with counterparties of our choosing. However, some of our clients request that we execute only with their custodian, in which case our discretion is limited to timing. In addition, a small number of clients have appointed their custodian to manage their trade related foreign exchange requirements. In order to arrange this, trade execution details are sent directly to the custodian, for them to execute the related foreign exchange. Where this is the case we do not monitor the execution prices received by the client. Furthermore, there are markets, known as "restricted currency markets", where the currency has to be traded by a local entity, typically the client's sub-custodian.

Market

The foreign exchange market is an OTC market. We can execute directly with counterparties on a principal trade basis or place orders with those counterparties or utilise their Algorithms on an agency trade basis.

As foreign exchange is an OTC market, the likelihood of settlement is an important factor. In order to manage credit risk effectively we have the following processes in place:

i. A relatively short list of creditworthy counterparties is used.

ii. Where a client's custodian can employ continuous linked settlement, a process that ensures payment vs payment between custodians and counterparties, we look to implement operational processes to facilitate this.

iii. Where possible we establish legal arrangements with counterparties to ensure that foreign exchange positions with a mark to market exposure are collateralised.

Process

Foreign exchange orders are raised through our OMS. We look to merge and net orders where this will reduce order size and is in the best interests of the client. Orders are communicated electronically to multi-lateral platforms and Algorithms and by phone and market messaging services to counterparties.

Typical execution strategies

Low touch, smaller size and liquid orders are placed in an RFQ process electronically on a multi-bank MTF platform, such as FXall and FX Connect.

However, where these are trade related and the trade has a settlement cycle less than two days then these trades can be placed with the client's custodian, to increase the likelihood that the trade is settled.

For orders in illiquid currency pairs or larger orders, where there is increased possibility of market impact, we carefully consider the pre-trade analytics tools we have available to gain an insight into the current market conditions in the currency pair. The desk will also consider general market conditions when determining best method of execution.

In high volatility with momentum working against the order, we will be inclined to execute any large order as a principle trade, taking a risk price from a counterparty. In low volatility, low momentum environments, the desk will look to execute orders passively via Algorithms, attempting to capture the spread rather than pay the risk price.

For some orders where the Portfolio Manager has stipulated a level at which they wish to trade we might place an order with a counterparty for them to manage the order on our behalf.

When rolling foreign exchange positions there are some banks, who are market leaders at pricing foreign exchange swaps and therefore we will approach them for prices. Where we have opened an outright position with a particular bank we may be inclined to include them in the RFQ process. The lower touch orders are likely to be executed on an MTF via an RFQ process, with high touch orders, larger, less liquid currencies or NDF orders, placed directly with counterparties or negotiated with a single trusted counterparty.

For OTC foreign exchange options, we typically put two or three counterparties in competition and select the best price, although high touch orders may be executed with a single counterparty. When closing options, having considered price, we will look to close with the counterparty with the original position as it minimises operational inefficiencies regarding collateral movements.

Execution factor assessment

Factor	Relative importance
Price	Price is an important factor, especially for low touch orders. For high touch orders price may become less important than the need to execute at speed or the need to execute in larger size to avoid information leakage having an adverse impact. Foreign exchange is an OTC market where payment versus payment is not mandatory and therefore price is secondary to likelihood of settlement.

Cost	Commissions are not charged on foreign exchange trades and therefore cost, according to the definition in this Policy, is not an execution factor considered. However, trading spreads are an important implicit cost and these are included in the consideration of price above. Spreads are monitored closely and spread matrices monitored across currency pairs and trade bucket sizes. There are charges applied by the Algorithm providers, which are US dollar amounts per one million US dollars executed. The charges are very similar across the providers and are too small to affect the decision to use them or not or to affect the decision to choose one Algorithm over another.
Speed	There are certain occasions when speed will be more important than price. This could occur when a Portfolio Manager wishes to implement or exit an investment strategy quickly.
Likelihood of execution	Likelihood of execution would become the most important factor when speed does.
Likelihood of settlement	As mentioned under "price" above, this is the most important factor. Therefore, the number of counterparties we use is limited and we use collateralisation and continuous linked settlement to mitigate risk in certain circumstances. For trade related foreign exchange trades the objective is to ensure that currency is in place to fund the security trade for purchases and to ensure that currency is swept to the base currency for sales. Therefore, likelihood of settlement is a critical factor.
Size	The need to execute in size can be important when we want to either implement or exit a position quickly or where we wish to minimise the information leakage associated with smaller fills.

6.8 Collective investment schemes

We generally execute transactions in collective investment schemes with the fund provider at the official price since we do not consider that sufficient liquidity is available elsewhere to enable us to obtain the best possible result on a consistent basis. This can be done be a direct instruction or via an electronic trading platform. This does not include fund like vehicles such as Investment Trusts and ETFs, which will be executed by our Equity Traders in the secondary market.

Section 7. Counterparty Credit Risk Assessment

Governance

The Credit Risk Team, which is part of the Group Risk Function, is responsible for preparing counterparty credit reviews. Counterparties are presented at the Group Agency Credit Risk Committee ("Committee") at the initial on-boarding stage and at least yearly afterwards. The Committee oversees agency credit risk for the portfolio management firm.

Credit risk assessment

Only counterparties that have been approved by the credit assessment process are set up on our systems and it is not possible to book an execution on our OMS unless this is the case.

An initial counterparty review is performed and approval is based on a holistic review of the various sources of information available,

Given Schroders' conservative attitude towards risk, exposure is mostly to financial institutions with a minimum long term rating of BBB (Fitch / Standard & Poor's) or Baa2 (Moody's). However, Schroders recognises that specific markets and / or geographies might require a different approach.

Group Credit Risk monitors the ongoing creditworthiness of all counterparties, as well as exposures across products at portfolio and at aggregated Group level to ensure that no undue exposure concentrations occur. Counterparties are monitored across the following universe of metrics:

- Rating or outlook changes
- Significant CDS spread or share price moves
- Negative news flow

Reviews are conducted at least annually, even in the absence of significant changes for a counterparty during that 12 month period.

Except for some very limited circumstances, OTC derivatives are traded under an ISDA agreement with a Credit Support Annex, CDEA or GMRA documentation for repurchase agreements. All term exposures beyond 12 months must be collateralised if possible. Settlement risk should be mitigated where possible by trading Delivery vs Payment or settling FX trades via Continuous Linked Settlement.

Counterparty exposure monitoring

Counterparty exposures are monitored at client mandate level and counterparty level on a daily basis.

Counterparty exposures are measured and monitored based on current and potential exposure. Both are the sum of mark to market values, taking into consideration netting and collateral received, the potential exposure also taking into consideration changes in exposure due to market movements.

Where there is a counterparty limit specified by a client or regulation then this is monitored and where a client has a restricted counterparty list this is coded in our OMS and checked at pre-trade by the Traders and post trade by the Portfolio Compliance Team.

Section 8. Governance, Organisation and Capability

The following are the key elements of our execution governance and oversight framework.

i. Schroders is an independent portfolio management firm.

Our portfolio management activities are not part of a broader investment banking business. As a result, we do not have the conflicts of interest associated with executing orders with a broking affiliate.

ii. We have separated trading and investment decision making.

Our internal Group Order Management and Execution Policy requires that our trading activity and investment decision making are performed by separate functions. This means that Traders can focus on execution and Portfolio Managers are in a position to challenge the quality of execution received.

Separation is in place across the main trading activities of the Group. However, for some specialist areas, it is not possible or desirable to separate investment decision making from execution and these areas have a derogation from the Policy requirement, providing that the appropriate compensating controls are in place.

Whilst Portfolio Managers and Traders are functionally separate, they work in close collaboration in order to achieve best execution. There is ongoing dialogue around execution opportunities and feedback on executions in progress.

iii. Trading teams are employed by local legal entities but organised functionally, reporting into a Global Trading Team in the Investment division of our asset management business. The Team reports to one of the Co-Heads of Investment.

Our main trading teams for equities, fixed income and foreign exchange operate on a global basis and are located in three regional trading hubs in London, New York and Singapore with a fourth hub in Sydney for equities and a fifth hub in Zurich for convertible bonds and insurance linked securities. Execution management arrangements are documented in internal delegation agreements.

Our global trading structure allows us to utilise the experience of our Traders and our trading capabilities in each market. This means that we actively manage orders during market hours and in international markets, we can pass on an order for execution from a market that has closed to a market that is open.

iv. We operate a straight through order management and execution process.

Our OMS enables the vast majority of orders to be processed from the point the order is raised; to the trading blotter; to execution management systems; and through to settlement messaging in a straight through process. For a number of instruments, this process includes the electronic messaging of order details to counterparties via FIX protocol.

This straight through process facilitates the speed of execution and the certainty of settlement.

v. We have a robust governance framework to oversee execution activity.

In summary, our governance framework is organised as follows:

- A Group Order Management and Execution Committee is responsible for overseeing trading policy and procedure.
- Individual Trading Performance Oversight Committees are responsible for reviewing execution activity.
- These Committees bring together the Heads of Trading, Compliance, Investment Governance, and representatives of the relevant asset classes. A component of this process is identifying whether execution strategies and processes can be enhanced.
- We review the quality of execution by employing transaction cost analysis where this is effective and other monitoring methods, such as sample testing, where it is not. We use transaction cost analysis to identify execution outliers, explanations for which are documented.

- The Heads of Trading provide regular feedback to the Portfolio Managers about execution performance. Where Traders do not report to the Global Trading Function, they are embedded in the investment process and therefore provide feedback on an ongoing basis.
- The Compliance Team performs independent execution monitoring.

vi. We review our execution arrangements and this Policy on an ongoing basis and we will notify clients of any material changes. This Policy will be formally reviewed on an annual basis and re-published on the Schroders' website.

Section 9. Execution Costs – Explicit and Implicit

Explicit costs

Equity execution commission rates

The Trading Team and our Equity Trading Performance Oversight Committee are responsible for reviewing commission rates on an ongoing and annual basis.

Rates are set by market and the method of execution, being "high touch" (voice or messaging) and "low touch" (electronic execution methods). The following table gives some indicative ranges for the execution commission rates in place at the date of this Policy.

Market/method	Indicative range (bps)
Developed markets	5 to 10
Emerging and frontier markets	10 to 50
Algorithmic execution	1.7 to 10
Crossing networks	1.7 to 6

Paying for research

Since 3 January 2018, there has been no research charge for client mandates contracted directly with, or delegated to, MiFID entities. The clients of non-MiFID entities may be charged for external research for fundamental equities' mandates provided this is in line with local regulations.

Foreign Exchange Algorithms

The cost incurred for using a foreign exchange Algorithm is approximately USD 25 per USD 1 million traded.

Exchange traded derivatives

There are three levels of commissions and charges on exchange traded derivatives.

Execution commission is charged by the counterparty executing the order and varies depending on the type of contract. For the counterparties selected by Schroders we determine these rates and the rates are the same across the counterparties used. Where a client has tied execution to a specific broker in order to facilitate clearing, for instance, then the client will have negotiated the commission rates. The Schroder rates are reviewed on a regular basis.

Exchange costs are fixed by the exchange on which the contract trades.

Clearing costs are charged by a clients' appointed clearing broker. Where a client appoints their own clearer then fees are negotiated by the client. Where a client uses one of Schroders' appointed clearing brokers then we have negotiated the fee. The Schroder rates are reviewed on a regular basis.

The following are indicative commissions and charges in GBP per contract for a typical contract at the date of this Policy:

Product description	Execution rate – Voice	Execution rate – Electronic	Exchange	Clearing
LIFFE FTSE 100 Index	0.50	0.30	0.28	0.20

Implicit costs

The implicit costs of a trade are included in the price and are the opportunity costs incurred or benefits accrued as a result of the execution strategy employed over the lifetime of the order. Implicit costs are measured by comparing the execution price achieved with the market price at some other point in time during the lifetime of the order. The point in time can be the time the order is raised; the time it is received by the Trader; or some other point in time, such as the market opening. The basic calculation is known as implementation shortfall or slippage cost. This cost can then be compared to various benchmarks, such as the theoretical cost based on a given market volume participation rate; or other quantitative benchmarks based on a population of similar orders.

We currently employ transaction cost analysis, supplied by external vendors, across equities, fixed income and foreign exchange. The data is reviewed by the Traders, the Heads of Trading, Compliance and the Trading Performance Oversight Committees, which meet quarterly. It is used to monitor execution performance and to identify outliers. This informs the evolution of our trading methods in order to improve trading performance by, for example, finding the optimal speed of release of orders to the market or by identifying underperforming counterparties.

We also review the performance of electronic execution Algorithms using transaction cost analysis, which enables us to compare the effectiveness of algorithmic strategies with one another. This data is reviewed at the Trading Performance Oversight Committees and electronic execution meetings on a quarterly basis.

We assess the effectiveness of the transaction cost analysis data itself on an ongoing basis to assess whether there are new offerings that could improve the data we currently consume.

Section 10. Conflicts of Interest

The following are the main conflicts of interest associated with our execution activity:

i. Rarely, but from time to time some of our own capital may be managed internally as a portfolio by one of our Portfolio Managers. Where this is the case our internal Group Order Management and Execution Policy requires that the orders and allocations of these portfolios do not disadvantage the orders of client portfolios.

ii. Whilst we do not aggregate house capital orders with client portfolio orders unless this would not disadvantage clients, there may be occasions when the foreign exchange trades required to settle those orders are aggregated with foreign exchange trades for our client portfolios. In these cases, the house capital foreign exchange order sizes will be too small to impact the execution price of client orders.

iii. From time to time we may have house capital portfolios that uses futures for hedging purposes. As a result, there may be occasions when the Portfolio Manager of a house capital portfolio places an order in highly liquid futures contracts at the same time that other Portfolio Managers have placed client orders in the same contracts. However, the house capital order sizes will be too small to impact the execution price of client orders.

iv. We seed new Schroder funds with our own capital in order to launch a fund in advance of it receiving the first client investor. It is our policy to treat these funds as if they were client funds rather than house capital portfolios.

v. The Global Trading Team executes some orders on behalf of our Wealth Management and Schroder Capital businesses. These orders are considered too small to impact the execution price of the client orders of the asset management business.

vi. Strict staff dealing rules exist whereby staff and their 'connected persons' must, except for certain limited exclusions, obtain pre-clearance before trading for their own account. Pre-clearance ensures that staff transactions will not adversely affect client transactions or that staff do not trade in securities for which Schroders are deemed to have insider knowledge. Additionally, Portfolio Managers, and their connected persons, are prohibited from buying or selling securities for which transactions are undertaken for their clients, or in securities which they know are being traded for other clients, 5 days before and after the client transaction.

vii. We do not permit staff to offer or accept gifts, services or hospitality which could be considered to conflict significantly with the duties owed to our clients. Strict limits and line management and Compliance approval processes are in place.

viii. Schroders does not receive any remuneration, discount or non-monetary benefit from any of our execution destinations, except for research services, where permitted by regulation and in accordance with those regulations. Since 3 January 2018, there has been no research charge for client mandates contracted directly with, or delegated to, MiFID entities. The clients of non-MiFID entities may be charged for external research for fundamental equities' mandates provided this is in line with local regulations.

ix. The Fixed Income investment desks also trade very occasionally with our Wealth Management business. This only occurs where we have orders to sell Certificates of Deposit ("CDs") where the CDs are close to maturity. In these situations the secondary market for the CDs can become illiquid, and occasionally our Wealth Management business are prepared to purchase them at a better rate than those quoted by other counterparties. In these infrequent occasions, best execution checks are rigorously applied and documented.

The policies and procedures that are in place to minimise conflicts of interest are overseen by line management and a Conflicts of Interest Committee and are monitored internally by our Compliance and Internal Audit departments as well as by our external auditors.

Appendix 1 List of Execution Venues

The following is a list of the execution venues (counterparties and trading venues) on whom we place significant reliance for the categories of investment instrument included in this Policy. Significant reliance is based on the monetary value of the volume of trading ordinarily undertaken with each execution venue. Therefore some counterparties that are significant to us in instruments we trade less frequently may not appear on the list. Our complete counterparty list is available to clients on request.

Execution venues are listed at their group level, rather than individual legal entity level. This list is subject to change and it will be revised from time to time. Any changes will be reflected in the next scheduled update of this Policy.

Counterparty	Equities	Fixed Income	Exchange Traded Derivatives	OTC Derivatives	Foreign Exchange
Australia and New Zealand Banking Group					✓
Bank of America / Merrill Lynch & Co	✓	✓	✓		✓
Barclays Bank	✓	✓	✓	✓	✓
BNP Paribas		✓		✓	✓
Citigroup	✓	✓	✓	✓	✓
Credit Agricole		✓			
Deutsche Bank		✓	✓	✓	
Goldman Sachs	✓	✓	✓		✓
HSBC	✓	✓	✓		✓
ING Bank		✓			
Virtu (Investment Technology Group)	✓				
J.P. Morgan Chase	✓	✓		✓	✓
Jane Street Financial	✓				
Jefferies	✓				
Jon. Berenberg, Gossler	✓				
Liquidnet	✓				
Lloyds Bank		✓		✓	
Mitsubishi UFJ Finance Group		✓			
Morgan Stanley	✓	✓	✓	✓	✓
Nomura Securities		✓			✓
Rabobank		✓			
Royal Bank of Canada		✓			✓
Royal Bank of Scotland		✓	✓		
Societe Generale	✓	✓			
Standard Chartered					✓
State Street					✓
Toronto Dominion Bank		✓			
UBS	✓	✓	✓	✓	✓

Trading Venue	Equities	Fixed Income	Exchange Traded Derivatives	OTC Derivatives	Foreign Exchange
Bloomberg	✓	✓			
Tradeweb	✓	✓		✓	
MarketAxess		✓			
FXall					✓
FXC					✓