

BNP Paribas Asset Management UK Limited

QUALITY OF EXECUTION ANNUAL REPORT

Disclosure Period: 1st January 2017 to 31st December 2017



**BNP PARIBAS
ASSET MANAGEMENT**

The asset manager
for a changing
world

INTRODUCTION

BNP Paribas Asset Management UK Limited (hereafter “BNPP AM UK”) is required under the regulatory Technical Standards set down under the revision of the Markets in Financial Instruments Directive (“MiFID II”) to provide additional disclosures about the execution venues used for each asset class in which it trades for clients and to provide information on the quality of execution on a defined period of trading.

Under the amended Markets in Financial Instruments Directive (“MiFID II”), investment firms are required to publish information about the top five execution venues for each class of financial instrument.

Our analysis is based on the following instruments:

1. Delegated Regulation (EU) 2017/576 Recitals 7-13 and Article 3(3); and
2. ESMA Q&A, Part 1, Question 10.

These reports relate to the 2017 calendar year and cover each class of financial instrument that was executed or transmitted by BNPP AM UK on behalf of its clients.

All client orders that are created by BNPP AM UK’s Portfolio Managers are executed centrally by BNPP AM UK’s dealing desk team. BNPP AM UK has dealing capabilities outside the United Kingdom and therefore has desks in different geographical locations that are used to execute orders.

REQUIREMENT OF THE DIRECTIVE

Article 3(3): Investment firms shall publish for each class of financial instruments, a summary of the analysis and conclusions they draw from their detailed monitoring of the quality of execution obtained on the execution venues where they executed all client orders in the previous year. Some of this information applies generally across all asset classes in which BNPP AM UK transacts. The information shall include :

<p>an explanation of the relative importance the firm gave to the execution factors of price, costs, speed, likelihood of execution or any other consideration including qualitative factors when assessing the quality of execution</p>	<p>For each order type, BNPP AM UK ranks the 7 factors outlined in MIFID II Delegated Acts C(2016) 2398 (Recitals 101, 107 and Article 66):</p> <ul style="list-style-type: none"> • Price • Cost • Speed • Likelihood of execution and settlement • Size • Nature • Other criteria • Other qualitative criteria <p>While price, speed and size are generally the most important execution factors to be taken into account, the relative importance of each criterion depends on the financial instrument and the order type. BNPP AM UK has chosen to rank the execution factors to allow a more accurate assessment.</p> <p>According to the BNPP AM UK Policy, the price is the overall dominant best execution factor. In appendix 1 are the details of Best Execution criteria for each asset class, depending on the order type relevant for the considered asset class:</p> <ul style="list-style-type: none"> • For Equities, the speed of execution is also an important criterion as some orders need to be filled in the shortest possible time to
---	---

	<p>avoid a possible adverse impact on the price due to volatile market conditions (market order for instance). For example a portfolio manager may want to buy a share following good earnings announcement. In this situation, the portfolio manager would aim at executing its order quickly in order to capture as much as possible of the anticipated upside move.</p> <ul style="list-style-type: none"> • In Fixed Income the likelihood of execution plays an important role as in some cases the order represents a significant portion of the market size. In the case where all portfolios have to be rebalanced simultaneously, it is paramount to execute the full quantity to ensure all portfolios have the same market exposure following the rebalancing exercise. • Regarding OTC derivatives, other criteria such as counterparty risk, liquidity, ability to structure complex product are also taken into account. With respect to the price criterion, the request for quotes is likely to identify the best available price. It is however worth noting that in some parts of the OTC market, it is not unlikely or irregular to ask and/or obtain a single quote, in particular in case of illiquid, customised or complex products. A record of the quotes obtained through the request for quotes will be kept. <p>For non-professional clients, if applicable as highlighted in Article 27 of MiFID II and irrespective of the criteria described above, the dominant best execution criterion is the total cost of acquisition or disposal.</p> <p>For less liquid products, that is to say, for financial instrument with limited market and/or limited liquidity and/or limited price transparency, the execution criteria ranking may change, speed or likelihood of execution becoming the dominant criterion.</p>
<p>a description of any close links, conflicts of interests, and common ownerships with respect to any execution venues used to execute orders;</p>	<p>Where authorised by regulations, BNPP AM UK and BNP Paribas Dealing Services may deal with affiliates of BNP Paribas or through an exchange where an affiliate has a membership. BNPP AM UK will ensure it reports transactions with affiliate companies upon client's request and if necessary under the rules regarding potential conflicts of interest.</p>
<p>a description of any specific arrangements with any execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received</p>	<p>BNPP AM UK does not receive payments, discounts, rebates or non-monetary benefits in its trading arrangements.</p>
<p>an explanation of the factors that led to a change in the list of execution venues listed in the firm's execution policy, if such a change occurred</p>	<p>BNPP AM UK, and BNPP Dealing Services when relevant, can access a variety of execution intermediaries and methods. This allows efficient dealing arrangements for a wide variety of trading circumstances that may reduce transaction costs, mitigate operational risk resulting in a lower chance of error or execution issues as well as accelerate trades execution</p>

	to take advantage of short lived market opportunities.
an explanation of how order execution differs according to client categorisation, where the firm treats categories of clients differently and where it may affect the order execution arrangements.	BNPP AM UK, and BNPP Dealing Services when relevant, only trade on behalf of one category of client where Best Execution is owed, namely Professional Clients. As such all clients are treated the same.
an explanation of whether other criteria were given precedence over immediate price and cost when executing retail client orders and how these other criteria were instrumental in delivering the best possible result in terms of the total consideration to the client;	This is not applicable, as BNPP AM UK does not trade retail client orders.
an explanation of how the investment firm has used any data or tools relating to the quality of execution, including any data published under Commission Delegated Regulation (EU) .../...to be inserted before publication [RTS 27]	BNPP AM UK has used independent Transaction Cost Analysis (TCA) providers to assist with detailed monitoring of the quality of execution obtained on the execution venues where BNPP AM UK executed/placed for execution client orders.
where applicable, an explanation of how the investment firm has used output of a consolidated tape provider established under Article 65 of Directive 2014/65/EU.	This is not applicable to the circumstances of BNPP AM UK.

SUMMARY ARISING FROM THE MONITORING OF THE QUALITY OF EXECUTION

BNPP AM UK has selected exchange members/counterparties that take all reasonable steps to obtain, when executing client orders, the best possible result taking into account the following factors, in order of priority:

- **Total Cost** – total cost means the price of the financial instrument plus the costs related to execution, including commissions, execution venue fees, clearing and settlements fees and any other fees paid to thirds parties involved in execution of the order. BNPP AM UK commissions are structured so as not to discriminate unfairly in the selection of potential exchange member/ counterparties ;
- **Speed** – the greater the standardisation of the product and the more liquid the market, the faster the execution will be;

The likelihood of execution and the size of the order – for non-standard transactions, particularly those that are significantly larger than are normally traded on the relevant regulated market; BNPP AM UK may employ an execution strategy for large orders.

The likelihood of settlement – on some foreign exchanges, secure settlement may take priority in order to ensure the proper execution and settlement of the transaction.

BNPP AM UK has established procedures to analyse and monitor the quality of execution of client orders that are independent of the dealing desks. BNPP AM UK undertakes a regular sample monitoring of transactions to review the quality of execution obtained on the execution venues against the above factors. The order of importance of these factors is normally as above, but may change under certain circumstances: BNPP AM UK may choose another order of priority from the above list according to market conditions, the type of order and in compliance with its obligation to obtain the best possible result for its clients.

EXECUTION FACTORS: MIFID II EQUITIES, SHARES AND DEPOSITARY RECEIPTS

The importance generally placed on the factors considered when executing equity and depositary receipt trade are defined by BNPP AM UK's policy. These can vary according to liquidity, urgency and volatility. For year 2017, **price** and **speed of execution** were generally the leading execution factors for this asset class.

EXECUTION FACTORS: MIFID II DEBT INSTRUMENTS.

The importance generally placed on the factors considered when executing debt instruments are defined by BNPP AM UK's policy. These can vary according to liquidity, urgency and volatility. For year 2017, **price** and **likelihood of execution** were generally the leading execution factors for this asset class.

EXECUTION FACTORS: MIFID II INTEREST RATES DERIVATIVES.

The importance generally placed on the factors considered when executing OTC derivatives are defined by BNPP AM UK's policy. These can vary according to liquidity, urgency and volatility. For year 2017, **price** and **speed of execution** were generally the leading execution factors for this asset class.

EXECUTION FACTORS: MIFID II CREDIT DERIVATIVES.

The importance generally placed on the factors considered when executing credit derivatives can vary according to liquidity, urgency and volatility. For year 2017, **price** was generally the leading execution factor for this asset class.

EXECUTION FACTORS: MIFID II EQUITY DERIVATIVES.

The importance generally placed on the factors considered when executing equity derivatives can vary according to liquidity, urgency and volatility. For year 2017, **price** and **speed of execution** were generally the leading execution factors for this asset class.

EXECUTION FACTORS: MIFID II EXCHANGE TRADED PRODUCTS.

The importance generally placed on the factors considered when executing exchange traded products can vary according to liquidity, urgency and volatility. For year 2017, **price** and **speed of execution** were generally the leading execution factors for this asset class.