

Hermes Investment Management

## **TOP FIVE VENUES**

## **EXECUTION REPORT FOR 2017**

RTS28

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## Glossary of abbreviations and terms

Abbreviation/term	Definition
Aggressive orders	Aggressive order means an order entered into the order book that took liquidity.
CF Global	CF Global Trading UK Limited
Directed orders	Directed order means an order where a specific execution venue was specified by the client prior to the execution of the order.
FCA	Financial Conduct Authority
HIML	Hermes Investment Management Limited
MiFID	Markets in Financial Instruments Directive (MiFID).
OTC	Over-the-counter (OTC) is a security traded outside of a formal exchange via an agreement between two parties.
Passive orders	Passive order means an order entered into the order book that provided liquidity.
P-note	Participatory notes, also referred to as "P-notes," are financial instruments used by investors to get access to markets where securities cannot be purchased directly.
Total Return Swap (TRS)	A total return swap is a swap agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset. The asset is owned by the party receiving the set rate payment.
Venue	A venue is where a client order is executed. For this report we show the legal name of the venue that the order was passed to.

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## Introduction

This report provides information on the venues Hermes traded with on behalf of clients in 2017. The report is broken down into asset classes that are specified under MiFID II regulation. For each asset class information is provided on the top 5 venues that Hermes traded with. A copy of Hermes' Execution Policy can be found on Hermes' website at <https://www.hermes-investment.com/sg/about-us/policies-and-disclosures/>

## Hermes' Central Dealing Desk

Hermes uses the Central Dealing Desk model to ensure segregation of duties. Portfolio managers are responsible for the investment decision to trade which is then routed to the Central Dealing Desk for execution. The regulated entity carrying out Hermes' trading is Hermes Investment Management Limited (HIML).

The Central Dealing Desk is made up of a team of experienced dealers with wide knowledge of the markets and instruments Hermes deals in. It is their job to focus on achieving the best possible execution of trades on behalf of clients. The Central Dealing Desk is responsible for selecting the venues to execute orders.

For equity investment teams the Central Dealing Desk operates a hybrid dealing model using both an internal dealing desk and an outsourced external dealing desk operated by CF Global Trading UK Limited (CF Global).

Hermes transmits orders to CF Global to execute orders for portfolios managed by Hermes' Global Emerging Markets and Asia ex-Japan equity teams as this provides local market coverage for markets which operate outside of standard UK business hours. CF Global execute orders in alignment with Hermes' Execution Policy. Hermes has oversight over and monitors the quality of execution of all CF Global trades.

## Venue selection

Hermes take into consideration a range of different factors when determining how to obtain the best possible result. These factors are price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of an order. The venue selected for execution is a result of these factors.

## Client categorisation

Hermes only trades on behalf of Professional investors. No trades are carried out on behalf of Retail investors.

## Trading venues

Hermes is an asset manager and has no affiliates that operate as a trading venue.

## Trading commission and non-monetary benefits

Hermes does not receive any commissions, rebates, discounts or non-monetary benefits from trading venues.

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## **Directed trading**

Hermes' does not currently place any client directed trades.

## **Passive and aggressive orders**

Some orders placed by broker venues on behalf of Hermes' clients are traded passively or aggressively in the market. The requirement to report the percentage of these orders was not required under regulation in 2017 and therefore this information is unavailable for this report.

## **Governance**

Hermes has a governance structure to oversee execution arrangements. The Hermes Portfolio Review Committee (PRC) is responsible for overseeing Hermes' best execution arrangements. The Chair of PRC is the Head of Investment. The results of the monitoring that is carried out by the Front Office and Compliance are reviewed at PRC.

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## Top five venue reporting by asset class for trades executed by Hermes

The following tables refer to trading executed by the Hermes Central Dealing team.

### Equities – Shares & depositary receipts

Notification if < 1 average trade per business day in the previous year: No

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
Morgan Stanley & Co. International PLC 4PQUHN3JPF GFNF3BB653	19.74	29.33
INSTINET EUROPE LIMITED 213800MXAKR2LA1VBM44	12.35	9.99
Jefferies International Limited S5THZMDUJCTQZBTRVI98	11.37	19.63
KEPLER CHEUVREUX 9695005EOZG9X8IRJD84	9.23	5.77
Goldman Sachs International W22LROWP2IHZNBB6K528	6.58	4.40

The primary factors considered when trading equities are price and size. The venue selected for execution is a result of these factors.

The information in the table above is for all Hermes' equity trades except those for the Global Emerging Markets and Asia ex-Japan products which are transmitted to CF Global for processing. The execution provided by the top five venues has consistently provided a reliable quality of execution on a global basis with live market coverage around the world. The execution provided has been at competitive rates. In 2017 a lot of the trading volume was the result of several large transitions across Hermes' equity products.

Hermes seeks natural liquidity when trading in order to manage the impact cost of executing orders.

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## Equity Derivatives – Swaps and other equity derivatives

Notification if < 1 average trade per business day in the previous year: Yes

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
Macquarie Bank Limited 4ZHCHI4KYZG2WVRT8631	100.00	100.00

The primary trading factors considered for this asset class when selecting the venue were price and likelihood of execution and settlement.

In 2017 Hermes held one total return swap (TRS) which was an over the counter (OTC) derivative product based upon the closing prices of listed products. Hermes had transparency of the prices making up the value of the TRS. This is a unique product which cannot be exchanged with other counterparties. Therefore only one venue was used for this asset class in 2017.

## Equity derivatives – Options and futures admitted to a trading venue

Notification if < 1 average trade per business day in the previous year: No

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
Morgan Stanley & Co. International PLC 4PQUHN3JPFGFNF3BB653	100.00	100.00

The primary trading factors considered for this asset class when selecting the venue were price and likelihood of execution and settlement.

In 2017 futures were traded on behalf of one portfolio. The size of these trades were small and this resulted in all the orders being placed with one broker. It was considered that speed and efficiency were important factors and would help to achieve the best price and result for the size of orders placed.

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## Debt instruments – Bonds

Notification if < 1 average trade per business day in the previous year: No

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
JPMorgan Chase Bank, National Association 7H6GLXDRUGQFU57RNE97	11.09	11.17
Goldman Sachs International W22LROWP2IHZNBB6K528	9.81	9.88
BARCLAYS BANK PLC G5GSEF7VJP5I7OUK5573	9.49	6.75
Bank of America, National Association B4TYDEB6GKMZO031MB27	7.19	6.45
Credit Suisse Securities (Europe) Limited DL6FFRRLF74S01HE2M14	6.54	4.42

The primary trading factors considered for this asset class when selecting the venue were price and size.

The top five venues appearing in the table are a result of the primary trading factor for this asset class being price. Multiple quotes are sought for all bond trades with the best available price being taken. In this asset class Hermes uses a large number of venues to source competitive prices and therefore trading is fairly evenly spread across the top five venues.

## Credit derivatives – Other derivatives

Notification if < 1 average trade per business day in the previous year: No

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
Goldman Sachs International W22LROWP2IHZNBB6K528	40.52	33.96
BARCLAYS BANK PLC G5GSEF7VJP5I7OUK5573	12.57	11.36
J.P. Morgan Securities PLC K6Q0W1PS1L1O4IQL9C32	12.56	11.04
BNP PARIBAS ROMUWSFPU8MPRO8K5P83	11.53	18.30
Citigroup Global Markets Inc. MBNUM2BPBDO7JBLYG310	9.60	8.10

The primary trading factors considered for this asset class when selecting the venue were price and size.

For the trading activity in 2017 the top venue was found to provide a competitive price for the size of trades, along with a good quality of service.



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## Currency derivatives - Swaps, forwards, and other currency derivatives

Notification if < 1 average trade per business day in the previous year: No

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
The Northern Trust Company 6PTKHDJ8HDUF78PFWH30	19.64	58.68
BARCLAYS BANK PLC G5GSEF7VJP5I7OUK5573	12.63	10.02
Commonwealth Bank of Australia MSFSBD3QN1GSN7Q6C537	12.61	9.90
LLOYDS BANK PLC H7FNTJ4851HG0EXQ1Z70	9.27	0.59
State Street Bank and Trust Company 571474TGEMMWANRLN572	9.17	12.86

The primary trading factors considered for this asset class when selecting the venue were price and size.

The majority of trades were for swaps where quotes were sought with the top venues consistently providing the best prices. Forwards were the other instrument traded where venue selection was driven by the best available price at the time of trading from Hermes' approved list of counterparties.

## Debt instruments – Money market instruments

Notification if < 1 average trade per business day in the previous year: Yes

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
BGC Brokers L.P. ZWNFQ48RUL8VJZ2AIC12	44.85	10.19
Tradition (UK) Limited 5493009GUESWKOCRBE73	16.81	8.92
Morgan Stanley & Co. International PLC 4PQUHN3JPFGFNF3BB653	8.44	9.55
BARCLAYS BANK PLC G5GSEF7VJP5I7OUK5573	7.79	4.46
ICAP SECURITIES LIMITED 213800NMEZS3MD2IUP33	7.10	10.19

The primary trading factors considered for this asset class when selecting the venue were price and size.

Trading in 2017 was mainly carried out with the top two venues in the table as they consistently provided the most competitive quotes in a very liquid market.

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## Exchange traded products

Notification if < 1 average trade per business day in the previous year: Yes

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
INSTINET EUROPE LIMITED 213800MXAKR2LA1VBM44	82.70	72.97
Citigroup Global Markets Inc. MBNUM2BPBDO7JBLYG310	14.75	5.41
Morgan Stanley & Co. International PLC 4PQUHN3JPFGFNF3BB653	1.50	18.92
NUMIS SECURITIES LIMITED 213800P3F4RT97WDSX47	1.05	2.70

The primary trading factors considered for this asset class when selecting the venue were price and likelihood of execution and size.

The instruments traded in this category were Exchange Traded Funds (ETFs). Hermes only trades in these on a limited basis with price being the primary consideration. The concentration with the top venue in the table is a result of the trading being in relation to a large transition from another company to Hermes. Instinet were identified as working with a high number of market participants and therefore they were able to provide a good execution for the transition.

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## Top five venue reporting by asset class for orders transmitted by Hermes to CF Global

The following tables are for orders where Hermes does not pass the order directly to a venue to execute but transmits the orders to CF Global for them to select the venue to execute the order on behalf of our clients. This arrangement is in place for Hermes' Emerging Markets and Asia ex-Japan teams only and does not apply to any other investment teams within Hermes. CF Global follow Hermes' Execution Policy and Hermes' authorised counterparties when seeking best execution.

### Comment on the below tables

For equity investment teams the Central Dealing Desk operates a hybrid dealing model using both an internal dealing desk and an outsourced external dealing desk operated by CF Global Trading UK Limited (CF Global).

Hermes transmits orders to CF Global to execute orders for portfolios managed by Hermes' Global Emerging Markets and Asia ex-Japan equity teams as this provides live local market coverage for markets which operate outside of standard UK business hours where Hermes' trading desk is based. Hermes' has oversight over and monitors the quality of execution of all CF Global trades which have consistently achieved a high standard of executions for our clients.

Tables showing the top five venues used by CF Global to execute orders are shown in the [next section](#) of this report.

### Equities – Shares & depositary receipts

Notification if < 1 average trade per business day in the previous year: No

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
CF Global Trading UK Limited 213800FZY2ZRXF16H814	100.00	100.00

The primary factors considered when trading equities are price and size.

### Equity derivatives – Options and futures admitted to a trading venue

Notification if < 1 average trade per business day in the previous year: Yes

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
CF Global Trading UK Limited 213800FZY2ZRXF16H814	100.00	100.00

The primary trading factors considered for this asset class when selecting the venue were price and likelihood of execution and settlement.

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## Securitized derivatives – Warrants and certificate derivatives

Notification if < 1 average trade per business day in the previous year: No

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
CF Global Trading UK Limited 213800FZY2ZRXF16H814	100.00	100.00

The primary trading factors considered for this asset class when selecting the venue were price and size.

## Interest Rate Derivatives – Futures and options admitted to a trading venue

Notification if < 1 average trade per business day in the previous year: Yes

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
CF Global Trading UK Limited 213800FZY2ZRXF16H814	100.00	100.00

The primary trading factors considered for this asset class when selecting the venue were price and likelihood of execution and settlement.

## Exchange traded products

Notification if < 1 average trade per business day in the previous year: No

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
CF Global Trading UK Limited 213800FZY2ZRXF16H814	100.00	100.00

The primary trading factors considered for this asset class when selecting the venue were price and size. Exchange Traded Funds (ETFs) were the only instruments in this asset class.

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## Top five venue reporting by asset class for CF Global executed trades

The following tables show the top five venues where CF Global have executed trades on behalf of clients in Hermes' Emerging Markets and Asia ex-Japan products. It should be noted that these products mainly trade in equity related instruments.

### Equities - Shares & depositary receipts

Notification if < 1 average trade per business day in the previous year: No

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
INSTINET EUROPE LIMITED 213800MXAKR2LA1VBM44	32.21	18.08
CLSA (UK) 213800VZMAGVIU2IJA72	23.96	24.77
Daiwa Capital Markets Europe Limited MIM2K09LFYD4IB163W58	20.43	35.10
Morgan Stanley & Co. International PLC 4PQUHN3JPFGFNF3BB653	3.05	1.87
Itau BBA USA Securities, Inc. 5493008E85XK12EKY122	2.98	2.05

The primary factors considered when trading equities are price and size. The venue selected for execution is a result of these factors. Hermes transmits orders from our Emerging Markets and Asia ex-Japan products for processing with venues.

The execution provided by the top five venues has consistently provided a reliable quality of execution on a global basis with live market coverage around the world. The execution provided has been at competitive rates. Ideally Hermes targets execution to seek natural liquidity which provides the most opportunity to limit crossing the bid offer spread. The concentration in the top three venues is due to CF Global using Direct Market Access (DMA) and algorithmic tools supplied by these venues which helps to achieve the best possible execution result for clients.

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## Securitized derivatives – Warrants and certificate derivatives

Notification if < 1 average trade per business day in the previous year: No

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
Morgan Stanley & Co. International PLC 4PQUHN3JPFQFNF3BB653	39.43	30.57
CLSA (UK) 213800VZMAGVIU2IJA72	37.24	46.29
Merrill Lynch International, LLC 549300J8H1BYG1YAFY05	12.07	6.77
Citigroup Global Markets Inc. MBNUM2BPBDO7JBLYG310	10.70	5.24
HSBC BANK PLC MP6I5ZYZBEU3UXPYFY54	0.53	9.83

The primary trading factors considered for this asset class when selecting the venue were price and size.

The activity in 2017 was related to p-notes where there were market developments resulting in a reduced number of p-note providers with many brokers leaving the market and a wide discrepancy in cost. As a result the cost and efficiency on the execution part of the trade became increasingly important. The top two venues in the table above were able to provide a competitive cost and efficiency in trading that provided the best results for the level of p-note trading executed.

## Equity derivatives – Options and futures admitted to a trading venue

Notification if < 1 average trade per business day in the previous year: Yes

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
Goldman Sachs International W22LROWP2IHZNBB6K528	100.00	100.00

The primary trading factors considered for this asset class when selecting the venue were price and likelihood of execution and settlement.

In 2017 futures were traded on behalf of one portfolio. The size of these trades were small and this resulted in all the orders being placed with one broker. It was considered that speed and efficiency were important factors and would help to achieve the best price and result for the size of orders placed.

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## Interest Rate Derivatives – Futures and options admitted to a trading venue

Notification if < 1 average trade per business day in the previous year: Yes

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
Goldman Sachs International W22LROWP2IHZNBB6K528	100.00	100.00

The primary trading factors considered for this asset class when selecting the venue were price and likelihood of execution and settlement.

In 2017 futures were traded on behalf of one portfolio. The size of these trades were small and this resulted in all the orders being placed with one broker. It was considered that speed and efficiency were important factors and would help to achieve the best price and result for the size of orders placed.

## Exchange traded products

Notification if < 1 average trade per business day in the previous year: No

Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
INSTINET EUROPE LIMITED 213800MXAKR2LA1VBM44	72.24	70.00
Citigroup Global Markets Inc. MBNUM2BPBDO7JBLYG310	13.46	13.33
Merrill Lynch International, LLC 549300J8H1BYG1YAFY05	8.74	6.67
INVESTMENT TECHNOLOGY GROUP LIMITED 213800EEC95PRUCEUP63	4.47	3.33
J.P. Morgan Cazenove Limited VU0BHW8GU0LCDVDEVZ11	1.00	3.33

The primary trading factors considered for this asset class when selecting the venue were price and size.

The instruments traded in this category were Exchange Traded Funds (ETFs). Hermes only trades in these on a limited basis with price being the primary consideration. The concentration with the top venue in the table is a result of the trading being in relation to a few large transitions from another company to Hermes. Instinet were identified as working with a high number of market participants and therefore they were able to provide a good execution for the transition.

*Note: In 2017 Hermes transferred its credit portfolios to a new order management system. Therefore the tables for "debt instruments – bonds" and "credit derivatives – other derivatives" are based on six months' data. This report covers the instruments that were available to report on 30 April 2018. The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Issued and approved by Hermes Investment Management Limited which is authorised and regulated by the Financial Conduct Authority. Registered address: Sixth Floor, 150 Cheapside, London EC2V 6ET.*