

Jeremy Lindsey, 30 April 2019

The views expressed in this article are those of the author at the date of publication and not necessarily those of Woodford Investment Management Ltd.

In line with the regulatory requirements outlined by MiFID II¹, Woodford is required to provide an annual review of the quality of our execution, along with details of the main execution venues utilised. Please find our 2018 report below.

Factors considered when trading

In the course of our fund management duties, we place orders primarily in equities but also in foreign exchange (spot and forward contracts) markets for currency hedging purposes.

When executing client orders, we will take into account the following criteria for determining the relative importance:

- The characteristics of the client
- The characteristics of the client order
- The characteristics of financial instruments that are the subject of that order
- The characteristics of the execution venues to which that order can be directed.

We will, in normal circumstances, give price a higher relative importance when seeking to obtain best execution, but may take into consideration a range of other factors. Examples of situations where we would not consider price to be the primary factor include:

- If order size is a high percentage of the average daily volume, potential market impact is a key consideration – in these situations, the price to execute the order may be outside the spread and the trading team may decide that size and liquidity are more important than price
- With settlement always closely monitored, the trading team may decide to suspend trading with a broker if they are unable to settle trades in a timely manner
- In illiquid securities, sometimes simply obtaining or disposing of the security is the primary objective

Conflicts of interest and specific arrangements (for example any close links and common ownerships with respect to any execution venues used to execute orders)

Woodford is not a direct market participant. We place orders with brokers to access the market. We do not have any close links or common ownerships with any of our brokers.

Woodford does not have any specific arrangements with any brokers regarding payments made or received. Commission rates are determined by the Best Execution and Research Committee (BERC) and reflect our requirements to access liquidity. The trading team is responsible for determining the order type and channel, based on available liquidity. All brokers operate on an execution only basis and all research costs are borne by Woodford.

Factors considered when selecting execution venues

The following are some of the key factors considered before appointing new brokers and evaluating existing relationships:

- Availability of liquidity and market breadth to support best execution
- Market structure and liquidity pools
- Cost implications per broker
- Changes in the structure of market
- Credit position of broker
- Regulatory and legal investigations
- The organisation
- Trading capability

Client categorisation

Not applicable. We do not execute orders on behalf of retail clients although some of our funds have specific mandate requirements.

Monitoring quality of execution

We use an independent external Transaction Cost Analysis provider, to assist with trading desk monitoring. Formal broker reviews are conducted annually by the Head of Trading, supported by an internal quarterly review and an ongoing, daily monitoring process. We use externally published market data where available to assist with our assessment of execution quality in pursuit of best client outcomes.

The BEREC meets monthly and has a mandate to monitor best execution and adherence to the Best Execution policy. The BEREC is comprised of representatives from the investment, compliance, investment operations and risk teams.

The BEREC monitors trading activity on an exceptions basis against a series of parameters that assess trading impact and execution cost against a series of parameters to assess effectiveness. Monitoring parameters are reviewed on an annual basis by BEREC or more frequently on trigger events such as new fund launch or new asset class launch. Trading parameters are set by the investment team and approved by BEREC. The BEREC also maintains an ongoing vigilance of changes in regulatory requirements relevant to us.

We are not currently aware of any authorised providers of a consolidated tape but will continue to monitor for the availability of such a service.

Execution venue report 2018

Equity liquidity bands 1-2

Less than one average trade per business day in 2018? No.

Counterparty	Volume traded (%)	Proportion of orders executed (%)	Directed trade (% volume)
Liberum Capital Limited	14.6	5.2	0.0
Atlantic Equities LLP	13.9	18.8	0.0
RBC Europe Limited	13.1	10.0	0.0
Jefferies International Limited	12.7	9.6	0.0
Investment Technology Group Limited	9.1	17.3	0.0

Equity liquidity bands 3-4

Less than one average trade per business day in 2018? No.

Counterparty	Volume traded (%)	Proportion of orders executed (%)	Directed trade (% volume)
Liberum Capital Limited	14.8	12.2	0.0
Deutsche Bank AG	12.5	1.9	0.0
Peel Hunt LLP	9.0	16.5	0.0
UBS AG	8.9	9.7	0.0
Investment Technology Group Limited	7.9	11.0	0.0

Equity liquidity bands 5-6

Less than one average trade per business day in 2018? No.

Counterparty	Volume traded (%)	Proportion of orders executed (%)	Directed trade (% volume)
Deutsche Bank AG	33.6	13.7	0.0
Credit Suisse Securities (Europe) Limited	16.2	13.5	0.0
Jefferies International Limited	8.3	10.3	0.0
Redburn (Europe) Limited	7.1	15.6	0.0
Goldman Sachs International	6.5	5.8	0.0

Equity other

Less than one average trade per business day in 2018? Yes.

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Counterparty	Volume traded (%)	Proportion of orders executed (%)	Directed trade (% volume)
J.P. Morgan Securities Plc	31.6	10.4	0.0
Investment Technology Group Limited	13.5	32.2	0.0
Peel Hunt LLP	10.1	10.4	0.0
RBC Europe Limited	9.4	20.0	0.0
Goldman Sachs International	8.8	0.9	0.0

Exchange Traded Products

Less than one average trade per business day in 2018? Yes.

Counterparty	Volume traded (%)	Proportion of orders executed (%)	Directed trade (% volume)
Liberum	100.0	100.0	0.0

Currency derivatives

Less than one average trade per business day in 2018? No.

Counterparty	Volume traded (%)	Proportion of orders executed (%)	Directed trade (% volume)
Northern Trust	100.0	100.0	0.0

Footnotes

1. Markets in Financial Instruments Directive – the second round of this European Union wide initiative came into effect in January 2018

Woodford Investment Management Ltd is authorised and regulated by the Financial Conduct Authority (firm reference number 745433). Incorporated in England and Wales, company number 10118169. Registered address 9400 Garsington Road, Oxford OX4 2HN.

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