

# ISAM Funds (UK) Limited

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BEST EXECUTION REPORT FOR 2020

APRIL 2021



## MiFID II RTS 28 Disclosures

### Introduction

This document aims to provide an overview of ISAM's best execution procedures as well as specific 'qualitative and quantitative' information related to the Top 5 Brokers and venues through which client orders were executed during 2020.

As a systematic investment manager, ISAM's trades are generated automatically and, for each desired trade, ISAM's system will decide the order type and the executing method based on a predefined set of rules considering the execution factors and their relative importance.

ISAM executes its automatically generated trading decisions, on behalf of its clients, by either placing orders with third party executing brokers (reception and transmission of orders) or executing trades with direct counterparties (order execution).

Multiple parties including ISAM's Trading, Research, Compliance and Operations teams continually monitor the efficiency of trade execution across a variety of avenues and metrics.

### Qualitative Report<sup>1</sup>

The following commentary applies to all trading, for each class of financial instruments, unless otherwise noted:

#### 1. Relative Factor Importance

- *Explanation of the relative importance the firm gave to the execution factors such as price, costs, speed and likelihood of execution when making assessments of the quality of execution*

When executing orders on behalf of clients, we take all sufficient steps to obtain the best possible result for our clients taking into account the following execution factors:

1. price;
2. access to liquidity and likelihood of settlement;
3. costs; and
4. any other consideration relevant to the execution of the order in question.

ISAM only trades liquid markets and accordingly we generally place the highest degree of importance on achieving the best possible overall price.

Access to liquidity is also an important execution factor as this provides greater transparency and the increased likelihood of obtaining a market price.

Transaction costs are a fundamental part of ISAM's return expectations and have a significant impact on its strategy implementation. Execution and clearing rates do not however vary significantly across the various executing brokers, direct counterparties and clearing brokers and in most cases the differences in rates would not have a material cost effect on ISAM's clients. Whilst transaction costs are actively considered, we deem price and access to liquidity to take precedence.

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<sup>1</sup> This qualitative report contains information on a consolidated basis, where appropriate, across classes of financial instruments as the information in common across the classes.

For interest rate swaps (“IRS”) and credit default swaps (“CDS”), price and access to liquidity are also the most important factors. Where sufficient liquidity, ISAM will aim to execute through the RFQ dealing process obtaining multiple quotes.

For Money Market Instruments the most important execution factor is likelihood of settlement, due to the nature of settlement in these instruments. However, obtaining a fair market price is also an important execution factor. However, with respect to certificates of deposit, counterparty risk is the key factor.

These factors are reviewed and updated by the firm’s Systematic Trading and Execution Committee (“STEC”) on an ongoing basis based on historical data. No change to the ranking of execution factors took place during 2020.

## **2. Venue Conflicts**

- *A description of any close links, conflicts and common ownerships with respect to any execution venues used to execute orders*

There are no close links, conflicts of interest or common ownership with respect to any executing broker/direct counterparty/venue used to execute orders.

## **3. Venue Payments**

- *A description of any specific arrangements with any execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received.*

ISAM does not maintain any such arrangements with its executing brokers or venues. ISAM has in place standard execution terms and commissions and no discounts, rebates or non-monetary benefits (other than acceptable minor non-monetary benefits) are received.

## **4. Venue Changes**

- *An explanation of the factors that led to a change in the list of execution brokers listed in the firm’s execution policy*

STEC, on a monthly basis, reviews price slippage with the view to evaluating whether changes need to be made to ISAM’s automatic platform for trade execution, including in relation to which executing broker orders should be routed.

During the year, ISAM added four additional executing brokers, to its list of approved brokers, for Commodities Derivatives and Emission Allowances Derivatives. These brokers were approved as specialist providers, to open up new lines of liquidity in niche markets and therefore increase the likelihood of achieving best execution.

In 2020, ISAM introduced Credit Default Swaps (“CDS”) to its strategy. In order to ensure sufficient access to specific liquidity across the asset class, seven direct counterparties were added to the list of approved counterparties.

In addition, ISAM added four direct counterparties to its list of approved brokers and counterparties for Interest Rate Swaps (“IRS”).

## 5. Client Categorisation

- *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.*

All of ISAM Funds (UK) Limited's clients are categorised as 'Professional', therefore the firm's treatment of its investors is consistent.

## 6. Execution Analysis Tool

- *An explanation of how the firm used any data or tools in relation to the quality of execution, including any data published under Commission Delegated Regulation (EU) 2017/575 (RTS 27)*

To ensure that ISAM achieves a high quality of execution on behalf of its clients the firm uses slippage metrics to monitor the level of best execution achieved.

Slippage is the difference between a benchmark price and the execution price multiplied by the quantity. The data is monitored daily for any slippage exceptions. Three different types of slippage are monitored by ISAM:

- Arrival Slippage – the difference between the price at the start of the order and the execution price
- VWAP Slippage – the difference between the volume-weighted average price and the execution price
- TWAP Slippage – the difference between the time-weighted average price and the execution price

ISAM has set thresholds which, if surpassed, require further investigation. "Outright" and "Roll" trades have different thresholds. As roll trades involve trading in markets which ISAM already has exposure, the slippage thresholds are slightly higher than the outright trades. These thresholds are agreed by STEC and are approved by the Compliance and Risk Committee.

All trade executions are measured against the slippage thresholds. If the thresholds are exceeded, STEC are notified on a T+1 basis. STEC will review the cause for these outliers and check if there are any significant issues. STEC will also meet on a monthly basis to review all the trades for that month outside of the above threshold and will decide if further actions need to be taken. These action points are logged in the minutes of the meetings and, along with the report, are reviewed by the Compliance and Risk Committee.

For FX swaps and NDF trades, slippage is calculated using the data provided by the execution venue on which our FX swaps and NDF trades are executed. Best execution is determined through whether the liquidity provider with the best quote was executed with or not. Any exceptions are noted and reviewed by the STEC.

We have considered the data published under Commission Delegated Regulation (EU) 2017/575 by the counterparties we have used, and a sample of reports published by other counterparties and execution venues which we do not currently utilise. From undertaking this analysis, we have concluded that our internal slippage monitoring provides a more meaningful analysis of execution quality.

## 7. Consolidated Tape Providers

- *Where applicable, an explanation of how the investment firm has used output of consolidated tape provider established under Article 65 of Directive 2014/65/EU.*

With regards to a Consolidated Tape Provider (CTPs) use, this is not applicable as there were no such CTPs available in Europe during the period to which this disclosure relates.

## Top 5 Report<sup>2,3</sup>

### Professional Clients - Receiving and Transmitting Orders

Class of Instrument	Commodities Derivatives and Emission Allowances Derivatives (i) Options and futures admitted to trading on a trading venue				
Notification if < 1 average trade per business day in the previous year	N				
Top five venues (executing brokers) 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	Percentage of passive orders*	Percentage of aggressive orders*	Percentage of directed orders
Societe Generale International Limited 0IKLU6X1B10WK7X42C15	63%	77%	31%	7%	5%
Morgan Stanley & Co. International PLC4PQUHN3JPFGFNF3BB653	12%	16%	2%	<1%	0%
UBS AG AGBFM8T61CT2L1QCCEMIK50	8%	<1%	0%	<1%	0%
Marex Financial Limited 5493003EETVWYSIJ5A20	8%	<1%	0%	0%	0%
J P Morgan Securities PLC K6Q0W1PS1L1O4IQL9C32	3% <sup>3</sup>	7%	0%	0%	0%

\* Data is included where we have discretion over whether trades are passive / aggressive.

<sup>2</sup> Reports include data from strategies that are not available to external clients.

<sup>3</sup> Data rounded to the nearest percent.

<b>Class of Instrument</b>	Currency Derivatives (i) Futures and options admitted to trading on a trading venue				
<b>Notification if &lt; 1 average trade per business day in the previous year</b>	N				
<b>Top five venues (executing brokers) ranked in terms of trading volumes (descending order)</b>	<b>Proportion of volume traded as a percentage of total in that class</b>	<b>Proportion of orders executed as percentage of total in that class</b>	<b>Percentage of passive orders*</b>	<b>Percentage of aggressive orders*</b>	<b>Percentage of directed orders</b>
Societe Generale International Limited 0IKLU6X1B10WK7X42C15	86%	86%	71%	1%	0%
Morgan Stanley & Co. International PLC 4PQUHN3JPFQFNF3BB653	14%	14%	<1%	<1%	0%

\* Data is included where we have discretion over whether trades are passive / aggressive.

<b>Class of Instrument</b>	Currency Derivatives (ii) Swaps, forwards, and other currency derivatives.				
<b>Notification if &lt; 1 average trade per business day in the previous year</b>	N				
<b>Top five venues (executing brokers) ranked in terms of trading volumes (descending order)</b>	<b>Proportion of volume traded as a percentage of total in that class</b>	<b>Proportion of orders executed as percentage of total in that class</b>	<b>Percentage of passive orders*</b>	<b>Percentage of aggressive orders*</b>	<b>Percentage of directed orders</b>
Societe Generale International Limited 0IKLU6X1B10WK7X42C15	100%	100%	<1%	<1%	2%
UBS AG AGBFM8T61CT2L1QCEMIK50	0%	<1%	0%	0%	0%

\* Data is included where we have discretion over whether trades are passive / aggressive.

<b>Class of Instrument</b>	Equity Derivatives (i) Options and futures admitted to trading on a trading venue				
<b>Notification if &lt; 1 average trade per business day in the previous year</b>	N				
<b>Top five venues (executing brokers) ranked in terms of trading volumes (descending order)</b>	<b>Proportion of volume traded as a percentage of total in that class</b>	<b>Proportion of orders executed as percentage of total in that class</b>	<b>Percentage of passive orders*</b>	<b>Percentage of aggressive orders*</b>	<b>Percentage of directed orders</b>
Societe Generale International Limited 0IKLU6X1B10WK7X42C15	89%	72%	22%	23%	23%
Morgan Stanley & Co. International PLC 4PQUHN3JPFGFNF3BB653	10%	27%	18%	<1%	0%
J P Morgan Securities PLC K6Q0W1PS1L1O4IQL9C32	1%	<1%	0%	0%	0%

\* Data is included where we have discretion over whether trades are passive / aggressive.

<b>Class of Instrument</b>	Debt Instruments (i) Money markets instruments				
<b>Notification if &lt; 1 average trade per business day in the previous year</b>	N				
<b>Top five venues (executing brokers) ranked in terms of trading volumes (descending order)</b>	<b>Proportion of volume traded as a percentage of total in that class</b>	<b>Proportion of orders executed as percentage of total in that class</b>	<b>Percentage of passive orders*</b>	<b>Percentage of aggressive orders*</b>	<b>Percentage of directed orders</b>
J P Morgan Securities PLC K6Q0W1PS1L1O4IQL9C32	44%	36%	0%	0%	0%

\* Data is included where we have discretion over whether trades are passive / aggressive.



<b>Class of Instrument</b>	Interest Rates Derivatives (i) Futures and options admitted to trading on a trading venue				
<b>Notification if &lt; 1 average trade per business day in the previous year</b>	N				
<b>Top five venues (executing brokers) ranked in terms of trading volumes (descending order)</b>	<b>Proportion of volume traded as a percentage of total in that class</b>	<b>Proportion of orders executed as percentage of total in that class</b>	<b>Percentage of passive orders*</b>	<b>Percentage of aggressive orders*</b>	<b>Percentage of directed orders</b>
Morgan Stanley & Co. International PLC 4PQUHN3JPF GFNF3BB653	64%	40%	<1%	<1%	0%
Societe Generale International Limited 0IKLU6X1B10WK7X42C15	36%	59%	23%	1%	0%
J P Morgan Securities PLC K6Q0W1PS1L1O4IQL9C32	<1%	1%	0%	0%	0%

\* Data is included where we have discretion over whether trades are passive / aggressive.

## Professional Clients – Order Execution

<b>Class of Instrument</b>	Credit Derivatives (i) Other Credit Derivatives				
<b>Notification if &lt; 1 average trade per business day in the previous year</b>	N				
<b>Top five venues (direct counterparties) ranked in terms of trading volumes (descending order)</b>	<b>Proportion of volume traded as a percentage of total in that class</b>	<b>Proportion of orders executed as percentage of total in that class</b>	<b>Percentage of passive orders*</b>	<b>Percentage of aggressive orders*</b>	<b>Percentage of directed orders</b>
Morgan Stanley & Co. International PLC 4PQUHN3JPFQFNF3BB653	33%	29%	0%	0%	0%
J P Morgan Securities PLC K6Q0W1PS1L1O4IQL9C32	25%	30%	0%	0%	0%
Credit Suisse International E58DKGMJYYYJLN8C3868	16%	16%	0%	0%	0%
BNP Wealth Management ROMUWSFPU8MPR08K5P83	15%	15%	0%	0%	0%
Bank of America Merrill Lynch International Limited EYKN6V0ZCB8VD9IULB80	5%	4%	0%	0%	0%

<b>Class of Instrument</b>	Credit Derivatives (i) (i) Other Credit Derivatives				
<b>Notification if &lt; 1 average trade per business day in the previous year</b>	N				
<b>Top five venues (execution venues)</b>	<b>Proportion of volume traded as a percentage of total in that class</b>	<b>Proportion of orders executed as percentage of total in that class</b>	<b>Percentage of passive orders*</b>	<b>Percentage of aggressive orders*</b>	<b>Percentage of directed orders</b>
Tradeweb Europe Limited 2138001WXZQOPMPA3D50	100%	100%	0%	0%	0%

<b>Class of Instrument</b>	Debt Instruments (i) Money markets instruments				
<b>Notification if &lt; 1 average trade per business day in the previous year</b>	N				
<b>Top five venues (direct counterparties) ranked in terms of trading volumes (descending order)</b>	<b>Proportion of volume traded as a percentage of total in that class</b>	<b>Proportion of orders executed as percentage of total in that class</b>	<b>Percentage of passive orders*</b>	<b>Percentage of aggressive orders*</b>	<b>Percentage of directed orders</b>
Morgan Stanley & Co. International PLC 4PQUHN3JPF GFNF3BB653	25%	29%	0%	0%	0%
Credit Agricole Corporate Investment Bank (CA-CIB)1VUV7VQFKUOQSJ21A208	16%	16%	0%	0%	0%
Societe Generale International Limited 0IKLU6X1B10WK7X42C15	15%	19%	0%	0%	0%

\* Data is included where we have discretion over whether trades are passive / aggressive.

<b>Class of Instrument</b>	Interest Rates Derivatives (ii) Swaps, forwards, and other interest rate derivatives				
<b>Notification if &lt; 1 average trade per business day in the previous year</b>	N				
<b>Top five venues (direct counterparties) ranked in terms of trading volumes (descending order)</b>	<b>Proportion of volume traded as a percentage of total in that class</b>	<b>Proportion of orders executed as percentage of total in that class</b>	<b>Percentage of passive orders*</b>	<b>Percentage of aggressive orders*</b>	<b>Percentage of directed orders</b>
J P Morgan Securities PLC K6Q0W1PS1L1O4IQL9C32	26%	20%	0%	0%	0%
Goldman Sachs International W22LROWP2IHZNBB6K528	18%	13%	0%	0%	0%
Morgan Stanley & Co. International PLC 4PQUHN3JPF GFNF3BB653	16%	15%	0%	0%	0%
HSBC Bank PLC MP6I5ZYZBEU3UXPYFY54	8%	6%	0%	0%	0%
BNP Wealth Management ROMUWSFPU8MPR08K5P83	7%	7%	0%	0%	0%

\* Data is included where we have discretion over whether trades are passive / aggressive

<b>Class of Instrument</b>	Interest Rates Derivatives (ii) Swaps, forwards, and other interest rate derivatives				
<b>Notification if &lt; 1 average trade per business day in the previous year</b>	N				
<b>Top five venues (execution venues)</b>	<b>Proportion of volume traded as a percentage of total in that class</b>	<b>Proportion of orders executed as percentage of total in that class</b>	<b>Percentage of passive orders*</b>	<b>Percentage of aggressive orders*</b>	<b>Percentage of directed orders</b>
Tradeweb Europe Limited 2138001WXZQOPMPA3D50	25%	2%	0%	0%	0%

\* Data is included where we have discretion over whether trades are passive / aggressive.

<b>Class of Instrument</b>	Contracts for difference <sup>4</sup>				
<b>Notification if &lt; 1 average trade per business day in the previous year</b>	N				
<b>Top five execution venues (direct counterparties) ranked in terms of trading volumes (descending order)</b>	<b>Proportion of volume traded as a percentage of total in that class</b>	<b>Proportion of orders executed as percentage of total in that class</b>	<b>Percentage of passive orders</b>	<b>Percentage of aggressive orders</b>	<b>Percentage of directed orders</b>
CMC MARKETS UK PLC 2138001U529ADVZ1GL50	100%	100%	0%	100%	100%

\* Data is included where we have discretion over whether trades are passive / aggressive.

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<sup>4</sup> Trades relate to a trading strategy not available for external clients.



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