

**RTS28**

**QUANTITATIVE AND QUALITATIVE  
REPORTS**

**NIKKO ASSET MANAGEMENT EUROPE LTD  
APRIL 2018**

## Quantitative Reports

The below tables publish Nikko AM Europe's ("NAME") top five execution venues in terms of trading volumes for each class of financial instrument, as per RTS28 Annex I, traded on all orders for the year 2017. The quantitative report is followed by a qualitative report explaining the content of the tables and how NAME monitors, analyses and evaluates the placement of execution with its execution venues, i.e. brokers.

Class of Instrument	Equities – Shares & Depository Receipts – All Equities, including non-EU				
Notification if <1 average trade per business day in the previous year	N				
Top 5 execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a % 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
<b>Citigroup Global Markets Limited</b> XKZZ2JZF41MRHTR1V493	35.3%	59.9%	N.A.	N.A.	N.A.
<b>UBS Limited</b> REYPIEJN7XZHSUI0N355	17.4%	6.7%	N.A.	N.A.	N.A.
<b>Robert W. Baird &amp; Co. Incorporated</b> 549300772UJAHRD6LO53	13.8%	5.3%	N.A.	N.A.	N.A.
<b>William Blair &amp; Co</b> 549300J0P7XYE8BMZ775	9.9%	3.2%	N.A.	N.A.	N.A.
<b>Macquarie Capital (Europe) Limited</b> 549300GX4FPMFF91RJ37	6.5%	8.3%	N.A.	N.A.	N.A.

Class of Instrument	Debt Instruments – Bonds				
Notification if <1 average trade per business day in the previous year	N				
Top 5 execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a % 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
<b>The Toronto-Dominion Bank</b> PT3QB789TSUIDF371261	27.0%	24.8%	N.A.	N.A.	N.A.
<b>Citigroup Global Markets Limited</b> XKZZ2JZF41MRHTR1V493	10.3%	4.9%	N.A.	N.A.	N.A.
<b>Mizuho International PLC</b> 213800HZ54TG54H2KV03	9.8%	2.6%	N.A.	N.A.	N.A.
<b>Daiwa Capital Markets Europe Limited</b> MIM2K09LFYD4IB163W58	5.4%	4.4%	N.A.	N.A.	N.A.
<b>Danske Bank A/S</b> MAES062Z21O4RZ2U7M96	5.0%	3.7%	N.A.	N.A.	N.A.

Class of Instrument	Debt Instruments – Money Market Instruments				
Notification if <1 average trade per business day in the previous year	N				
Top 5 execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a % 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
<b>UBS AG</b> BFM8T61CT2L1QCCEMIK50	29.2%	34.2%	N.A.	N.A.	N.A.
<b>Citigroup Global Markets Limited</b> XKZZ2JZF41MRHTR1V493	24.1%	24.2%	N.A.	N.A.	N.A.
<b>ING Bank N.V.</b> 3TK20IVIUIJ8J3ZU0QE75	20.9%	20.1%	N.A.	N.A.	N.A.
<b>Bank of America Merrill Lynch International Limited</b> EYKN6V0ZCB8VD9IULB80	11.3%	11.3%	N.A.	N.A.	N.A.
<b>The Royal Bank of Scotland Public Limited Company</b> RR3QWICWWIPCS8A4S074	5.7%	3.6%	N.A.	N.A.	N.A.

Class of Instrument	Currency Derivatives – Swaps, forwards, and other currency derivatives				
Notification if <1 average trade per business day in the previous year	N				
Top 5 execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a % 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
<b>J P Morgan Chase BANK NA</b> 7H6GLXDRUGQFU57RNE97	35.0%	13.5%	N.A.	N.A.	N.A.
<b>Royal Bank of Canada</b> ES7IP3U3RHIGC71XBU11	26.2%	26.1%	N.A.	N.A.	N.A.
<b>Standard Chartered Bank</b> RILFO74KP1CM8P6PCT96	16.1%	14.9%	N.A.	N.A.	N.A.
<b>State Street Bank and Trust Company</b> 571474TGEMMWANRLN572	15.3%	12.3%	N.A.	N.A.	N.A.
<b>UBS AG</b> BFM8T61CT2L1QCCEMIK50	3.2%	2.0%	N.A.	N.A.	N.A.

Class of Instrument	Credit Derivatives – Other Credit Derivatives				
Notification if <1 average trade per business day in the previous year	Y				
Top 5 execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a % 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
<b>Deutsche Bank AG</b> 7LTFWZYICNSX8D621K86	100.0%	100.0%	N.A.	N.A.	N.A.

## Qualitative Report

Additionally to the tables above, following RTS28 Article 3(3), NAME hereby publishes a summary of the analysis and conclusions the firm has drawn from detailed monitoring of the quality of execution obtained during 2017. This qualitative report strives to provide a clear picture of the firm's execution strategies and tools used to assess the strategies' quality.

NAME acts as an Order Placing Entity. According to this classification, the content of Article 24 of MIFID II and Article 65 of the Delegated Regulation applies. Therefore, NAME presents the brokers in the above reporting tables instead of the venues, whilst fully understanding that it owes best execution to its clients regardless of the platform (venue) used.

To give credit to each factor listed in RTS28 Article 3(3), please see below table and further comments on factors which are applicable to the particular underlying asset class, specifically in relation to the above quantitative tables.

(a) 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;	The assessment of those factors will be reviewed per asset class following this table.
(b) a description of any close links, conflicts of interests, and common ownerships with respect to any execution venues used to execute orders;	NAME does not trade with any affiliates on any asset class apart from Debt Instruments – Money Market Instruments, more detail on this can be found in the review following this table.
(c) a description of any specific arrangements with any execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received;	NAME does not receive payments, discounts, rebates or non-monetary benefits in its trading arrangements.
(d) 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;	The assessment of any additional brokers will be reviewed per asset class following this table.
(e) 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;	NAME only provides its services to Professional Clients and all professional clients are treated the same.
(f) 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 NAME does not trade retail client orders.
(g) 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) 2017/575 [RTS 27];	NAME has used independent TCA (transaction cost analysis) to help with detailed monitoring of the quality of execution obtained on the execution venues/brokers where NAME places the execution of client orders. These reports have been analysed with all relevant parts of the business in the quarterly Order Placement Committees.  However, as the initial RTS27 has not been published at the time of this report, NAME will only be able to apply this data to subsequent reports.
(h) where applicable, an explanation of how the investment firm has used output of a consolidated tape provider	This is not applicable, as there are currently no consolidated tape providers in Europe.

Following the qualitative table above, please see below for rationale why NAME has deemed the percentage of passive, aggressive and directed orders as not applicable as well as the explanations of execution factors and changes in the list of execution venues for each class of financial instrument.

As this is the first RTS28 report since MiFID II has come into force, please see below a statement of an [ESMA Q&A Q6](#):

*“As a practical matter, this might mean that the first year’s report may lack some of the detail that would be available for subsequent reports, given that firms may not have data published under RTS 27 for the preceding year. Specifically, ESMA wishes to clarify that unless the firm is using a specific tool or the services of a third party data provider to assess execution quality, it will most likely be unable to provide, in the first annual report, any information required under Article 3(3) (g) of RTS 28. Another possible example of where the first set reports required by RTS 28 may lack some granularity in comparison to subsequent reports is in relation to the lack of data on the identification of the subclasses of the classes of financial instruments based on liquidity, in accordance with the MiFID II tick size regime. Similarly, investment firms may not necessarily have complete information on the exact proportion of passive and aggressive orders executed on each of the execution venues it used in the previous year, since they may not have been collecting such detailed information under their existing MiFID I best execution obligations.*

*Nonetheless, information on the top five venues and a summary of the outcomes achieved, such as it is in line with investment firms’ MiFID I best execution obligations, will still provide useful information to investors.”*

Despite the above ESMA statement, NAME has taken all reasonable steps to source information to ensure that the first RTS 28 report is as complete and meaningful for its investors as possible.

Due to the lack of data from the tick size regime, for this report, NAME has bucketed all equities in one table. The percentage of directed orders is not applicable to this report as NAME received no trade instructions from any client in 2017, all execution decisions were made by a central desk who execute according to NAME’s single execution policy. Acting as a portfolio manager, when NAME places an order with a broker, the distinction between passive and aggressive orders (“P/A orders”) as defined in Article 2 of RTS 28 is not applicable as when placing orders with a broker, the firm does neither determine, nor have any visibility regarding, how the order is executed by the broker. Therefore this information is not disclosed in the tables above – more detailed rationale on the P/A orders can be found in the asset-class specific commentary below.

### **Equities – Shares & Depositary Receipts – All Equities, including non-EU**

NAME considers all execution factors as set out in its [Best Execution Policy](#), however price remains the factor with the highest importance followed by size, nature of the order and market covered by the counterparty. The main execution factors that have influenced the above top five brokers are cost and efficiency in specific markets.

Citigroup is top used due to its efficiency in program trades and access to global markets. As there is more turnover in US markets, US broker houses like William Blair and Robert W. Baird tend to be utilised. UBS is also used for US markets and, where smaller amounts are to be executed in the European markets. Finally, Macquarie is NAME’s top broker in the Asian markets.

These broker trends have been discussed and analysed throughout the year in the quarterly Order Placement Committees and prices have been monitored on a daily basis via TCA. During those analyses, NAME has considered the various strategies applied to cash equities orders depending on the nature of the order and markets as described in the policy.

As previously explained, this year’s report aggregates all equities, including non-EU, in one table due to the lack of data on the MiFID II tick size regime. As mentioned above, for the majority of NAME’s orders P/A is not applicable, however for Equities, where NAME specifies that the broker should execute an order in a ‘passive’ or ‘aggressive’ manner this could become applicable to NAME as an order placing entity and therefore be disclosed. However, NAME did not collect this type of data in 2017 and is therefore unable to provide full disclosure for this RTS28 report.

## **Debt Instruments**

NAME considers all execution factors as set out in its [Best Execution Policy](#), however price remains the factor with the highest importance followed by size and nature of the order as well as speed.

For Debt Instruments – Bonds, the Toronto-Dominion Bank received a large allocation in 2017 than usual as a one-off large transition trade was placed with them, this was done due to TD's execution ability in developed as well as emerging markets. Citigroup, Mizuho and Daiwa featured highly due to their capabilities in the MBS markets which accounts for a large proportion of NAME's bond trades and is triggered by rolling contracts. Danske Bank features as they offer the best level of execution amongst a limited number of Scandinavian banks.

For Debt Instruments – Money Market Instruments, there is in general a limited number of banks active for commercial papers and NAME has selected the brokers in the quantitative table as being representative of the top banks offering best execution within that market. Due to the limited number of banks active, NAME has chosen one of its affiliates as a broker for money markets instruments in order to have a wider selection to enhance best execution. All orders with this affiliate are completed following NAME's best execution and conflict of interest rules.

The broker trends for both Bonds and Money Market Instruments have been discussed and analysed throughout the year in the quarterly Order Placement Committees and prices have been monitored on a daily basis via TCA. During those analyses, NAME has considered the liquidity of the underlying securities.

In the table representing the asset class Debt Instruments – Bonds, NAME has given account to its contractual counterparties used, however, please note that NAME at times utilises MTFs rather than RFQ to place an order with a broker. This is done for good price comparison and to increase the availability of choice in best offers.

During 2017, NAME has added more brokers to cover US markets and increase liquidity in credit and municipal bonds, these brokers are Imperial Capital, Daiwa, Wells Fargo, Liquidnet and Millennium. Furthermore, due to new investment strategies, Mizuho and Daiwa were added in order to facilitate best execution.

## **Currency Derivatives – Swaps, forwards, and other currency derivatives**

NAME places all currency derivatives orders on the platform FXALL, the use of this electronic platform helps in achieving and evidencing best execution. On the platform, counterparties are chosen based on the best offer for price in comparison and following that approach resulted in the above table content for currency derivatives.

As spot transactions do not fall within the asset class definitions of RTS 28 Annex I, NAME has excluded them from the quantitative tables, however NAME does include them in its best execution policy.

The broker trends have been discussed and analysed throughout the year in the quarterly Order Placement Committees and prices have been monitored on a daily basis via TCA with the most important focus on price.

## **Credit Derivatives – Other Credit Derivatives**

Where NAME only has the counterparty, Deutsche Bank, with which it can trade its credit derivatives, NAME deems this sufficient as it is based on a low trading volume in general and as the firm remains with some discretion as to how it executes the order as the quoted price is on every occasion compared to market levels before proceeding.