

# ORDER EXECUTION AND TRADE HANDLING POLICY

2017





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## 1 INTRODUCTION

Baillie Gifford invests in various asset classes including, equities, bonds, foreign exchange, futures, swaps and other derivative instruments on behalf of our clients, as part of the investment management services which we provide. In carrying out this activity we act in accordance with the best interests of our clients when we execute orders and also transmit or place orders on their behalf with other entities for execution. As a consequence, we have established an order execution & trade handling policy for complying with our overarching best execution obligation and in order to promote transparency so that clients can better understand our trading practices and the related charges and costs associated with that trading. Baillie Gifford only undertakes orders on behalf of 'professional clients' and does not consider the rules relating to retail client orders, in respect of its trading operations.

This document sets out Baillie Gifford's approach to achieving best execution for its clients in accordance with the regulatory requirements to which it is subject, including the rules of the UK Financial Conduct Authority (FCA). The policy is subject to regular review to ensure it remains accurate and up to date. It is overseen by our Best Execution Group and is reviewed and approved at least annually. The review, oversight and governance around best execution is covered in more detail within section six.

The Policy is required to include information in respect of each class of financial instrument we trade in, however where we have the same process for multiple classes of financial instrument, these have been combined to avoid unnecessary duplication and for ease of use of this Policy.

## 2 SCOPE

This Policy applies to Baillie Gifford & Co and Baillie Gifford Overseas Limited through which investments are made on behalf of institutional clients, including a range of pooled investment vehicles, operated by Group entities. All trading is executed through Baillie Gifford Overseas Ltd, as Baillie Gifford & Co has delegated this activity to its affiliate.

Baillie Gifford & Co Limited has delegated portfolio management to Baillie Gifford & Co, however, in order to meet its requirements under the Alternative Investment Fund Managers Directive, it has adopted this Policy. It is also required to provide appropriate information to investors in its UCITS funds.

References to 'Baillie Gifford', 'we', 'us' or 'our' are to these entities. In respect of Baillie Gifford & Co Limited, references to client(s) should be interpreted as 'fund(s)'.

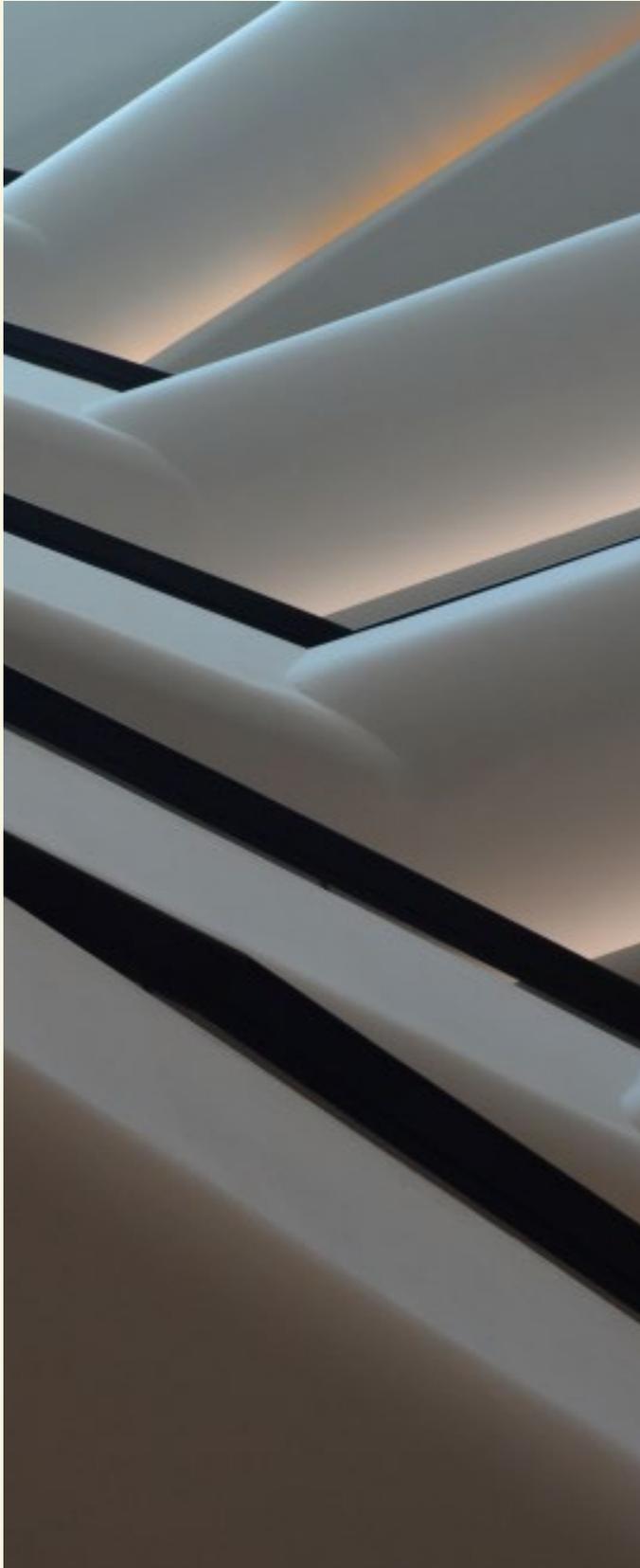
Baillie Gifford Overseas Ltd does not execute orders through any affiliated trading counterparts. It only trades on behalf of 'professional clients', as detailed in its Client Classification Policy.

## DIRECT RESPONSIBILITY FOR BEST EXECUTION

It is our opinion that the responsibility for best execution is generally shared between Baillie Gifford and our trading counterpart. Under the following circumstances however, the responsibility for best execution when we are deemed to be executing client orders may apply solely to Baillie Gifford:

1. In equity markets where we request a broker or other liquidity provider to use its own capital in providing liquidity for a trade by dealing as principal;
2. In dealer markets where we request a price quotation from a broker or other counterparty (this includes bond trades, over-the-counter derivatives and some types of foreign exchange transactions as discussed in section 4.2); and
3. In fixed Income and FX trades, where we trade directly in the market as a participant in a Multi-Lateral Trading Facility or other trading venue.

When we request a price quotation in thinly traded instruments we may be limited in the number of counterparts we are able to request a quotation from. In these instances we will have a legitimate reliance on the counterparts selected to provide accurate price discovery and therefore assist us in achieving best execution. Our trader's selection of which trading counterpart to request price discovery from will include factors such as its degree of specialisation in the instrument traded; any trade flows or trading history it is advertising; the likelihood of execution and probability of efficient settlement.



## **INDIRECT RESPONSIBILITY FOR BEST EXECUTION**

Responsibility for best execution applies not only to Baillie Gifford but also to other entities. When we place or transmit orders for clients (rather than executing them ourselves, as described above), we place reliance on brokers and other counterparties to execute orders on an agency basis. These entities are then responsible for the duty of best execution. This includes orders placed via proprietary algorithmic trading. In this circumstance, Baillie Gifford is responsible for oversight and monitoring of the execution quality of the broker or other counterparty.

## **WHEN BEST EXECUTION MAY NOT APPLY OR ONLY APPLIES IN LIMITED CIRCUMSTANCES**

Our ability to achieve the best possible result, and hence our obligation to do so, may be limited to the extent that we are following a specific instruction from our clients when placing an order with another entity for execution. For example, where we are given specific instructions on the use of a particular broker or brokers. Where any instruction relates to only part of the order, we will continue to apply our order execution policy to those aspects of the order not covered by the specific instruction. In any situation where our ability to provide best execution is limited, we will always apply the principle of best efforts to try and achieve the best outcome for clients.

## **3 ORDER EXECUTION**

When providing portfolio management services to clients, we must act in accordance with the best interests of our clients. This applies when placing orders with trading entities or using venues for the execution of trades which result from our investment decisions for clients.

We take all sufficient steps to obtain the best possible result ("best execution") for our clients taking into account all relevant factors, including:-

- price,
- costs (implicit and explicit),
- size,
- speed,
- likelihood of execution,
- likelihood of settlement,
- the nature of the order,
- the ability to retain anonymity in the market, and
- the prevention of information leakage.

The relative importance of each of these factors within our dealing process will vary depending upon a number of criteria, namely:-

1. the investment intent of the investment manager who created the order at Baillie Gifford;
2. the characteristics of financial instruments that are the subject of that order; and
3. the characteristics of the execution venues to which that order can be directed.

Each client order that is transacted by our traders is inherently unique in its characteristics and market conditions are never constant. The relative importance of the execution factors is therefore variable. That said, the particular combination of total consideration (price of the instrument and costs of execution, both implicit and explicit) and size are usually the most considered factors when setting our execution strategy. Where an instrument is less liquid, then likelihood of execution becomes a more important consideration. Another factor relevant to best execution is counterparty risk, particularly in the case of instruments which are not settled by delivery versus payment. Under this scenario, our assessment of credit risk may impact on our selection of who we trade with.

Regulatory requirements provide that ‘best execution’ does not demand that firms achieve the best possible result with every trade, but that the focus is on taking all sufficient steps for obtaining the best possible result on a consistent overall basis. It is our policy to have a process which ensures that every client order is treated in a way that aims to maximise the chance of getting the best set of results when trading. For more details we would refer to the supplemental note on ‘Conflicts of Interest’.

#### **4 CHOICE OF VENUES AND ENTITIES FOR EXECUTION**

We operate a centralised dealing desk dedicated to achieving best execution for our clients’ orders and our policy is to maintain a choice of venues and entities to ensure our traders have sufficient execution arrangements to comply with our best execution obligations when we place or transmit orders which allow Baillie Gifford to obtain the best possible result for their execution on a consistent basis.

##### **TRADING OBJECTIVE**

Market impact, as an indirect cost of transacting, often exceeds the direct costs of transacting (commission and fees) especially on larger deals. Depending on the trading objective, the primary focus in minimising overall transaction costs is typically to choose a venue where natural liquidity can be accessed in order to minimize market impact. If the key execution factor is speed then it may be necessary to trade either using a trading counterpart’s risk capital or on trading venues where, in the opinion of the trader, the order may be executed in an expeditious manner.

##### **EXECUTION VENUES**

We have a wide choice of execution venues or entities that we can utilise to achieve best execution. Baillie Gifford does not have any affiliated investment bank or broker and has not entered into any agreements with any trading counterparty with regard to trading volumes or commitments. Our trading team is therefore not constrained at all in the selection of venues which may be used in our pursuit of best execution. The traders are free to use their judgement to select a venue to trade wherever the best overall terms can be achieved for our clients. Venue selection has become increasingly relevant as market volumes have fragmented to a wider number of trading platforms resulting from greater competition and some innovation. To achieve best execution, our

traders look for counterparties that have the required technology to reach all potential sources of liquidity, but at the same time ensure that the handling and routing of our orders does not result in too much risk of signalling our trading intentions to the wider market. Regardless whether or not we are dealing with a MiFID Investment Firm, we expect and will exercise the same duty of care to ensure our commitment to provide sufficient steps in achieving best execution.

For equity trading we have relationships with a number of brokerage firms who transact on our behalf on primary global stock exchanges and other regulated markets, either on an agency basis (working the orders against market liquidity) or on a principal basis (using their own capital to facilitate our orders). Additionally, our traders have access to algorithmic trading suites supplied by an agreed list of providers. In addition, Baillie Gifford may trade on a number of Trading Venues including Systematic Internalisers and Multi-Lateral trading Facilities (MTF) and these are listed in the Appendix. MiFID II has also introduced a new category of trading venue called Organised Trading Facilities (OTF). An OTF is a multilateral system that is not a Regulated Market or MTF. Within an OTF, multiple third-party buying and selling interests in bonds, structured finance products, emission allowances or derivatives are able to interact in a way that results in a contract. Equities are not permitted to be traded through an OTF. In equities and listed futures, we will typically access trading venues through an executing broker whereas in OTC markets we may execute directly on a venue.

##### **TRADING WITH AFFILIATES**

Baillie Gifford does not trade on its own account (except in very limited circumstances where it deals on its own account in providing initial seeding for new funds or new share classes. There is, therefore, a lower risk of conflicts of interest arising within our trading process. [For more details we would refer to the supplemental note on ‘Conflicts of Interest’.]

A list of our trading counterparts; providers of algorithmic trading products and trading venues we access is contained within the appendix.

## 5 TRADING METHODS, ASSOCIATED COSTS AND BEST EXECUTION

### (i) Equities

Our strategy is to track a wide variety of trading venues and entities for equity trades and to select the venues or entities, which our traders deem appropriate, on a trade-by-trade basis. The examples of venue or entity that might be used include:-

1. Broking firms where we instruct them to work an order on an agency basis. The broker then owes a duty of care to transact orders on behalf of our clients and shares the best execution obligation jointly with the Baillie Gifford traders.
2. Broking firms where we ask them to provide risk pricing on a principal basis, using the broker's own capital to facilitate our orders. Where Baillie Gifford's traders ask for and accept a risk price, the responsibility for best execution solely rests with us.
3. Algorithmic trading, where we trade an order in line with specific parameters, (e.g., a set percentage of traded volume etc.) using a number of brokers' proprietary trading algorithms. We have procedures for the use of Electronic Trading Systems which covers for example, due diligence and training).
4. Equity Capital Market (ECM) Desks. From time to time, Baillie Gifford may approach or be approached by a broker's ECM desk regarding a placing of stock. ECM desks sit on the insider side of a Chinese wall and any approaches to us will typically go through to our Compliance Department, which will determine if the information constitutes inside information. If it does then the Compliance Department, will take the necessary steps as required in our policies around handling inside information, which would include placing a restriction on our buying and selling the affected security during the closed period.

In order to achieve best execution, the selection of venue and type of execution strategy is critically important. We are not affiliated with any broker, bank or venue, allowing us full flexibility to select trading partners solely on the basis of best execution. Our unconflicted trading model, introduced in January 2016, allows the Baillie Gifford trading team to take sole responsibility where to trade in secondary markets.

### Execution Strategy

Before any trade is undertaken, our traders use their experience and available market intelligence, including Indications of Interest from our brokers, to review the alternative execution venues and reach a decision on the appropriate dealing strategy based on the relevant factors mentioned earlier. As a general rule, unless speed is the key execution factor, which it rarely is, we will try to identify venues which are sources of natural liquidity before entering an order into the market. Finding a matching buyer or seller eliminates the spread cost between bid and offer prices and helps reduce market impact. When we have large single stock orders to transact, particularly in a size that is greater than the average daily volume, we typically use block trading venues to try and find a size match for our business with a natural counter trade. The negotiated price will be based around the prevailing best bid and offer price on show in the market. In this situation, the relative importance of size is a key factor, although the possibility of dealing at the mid price or better, also eliminates any spread cost.

If a natural counterparty does not exist for our order, our traders will select an execution venue to work an order for us, typically on an agency basis but occasionally asking the broker to commit risk capital. When working an agency order, the traders are cautious not to expose too much of our order to the market, in order to avoid information leakage leading to an unnecessary additional impact cost. This is a general strategy adopted when speed is a less important factor than, say, price or the ability to retain anonymity.



We believe that the ability to source liquidity is a key factor in determining best execution and the brokers that consistently provide us with liquidity at the right price to transact our orders will inevitably rise towards the top of our trading list. This is particularly the case in live trading markets such as the UK, Europe and USA, when our traders have discretion to deal wherever they can to obtain the best liquidity and the lowest transaction costs. When our clients are transacting significant volumes in the Asian time zone, we will typically operate real time with traders coming in overnight to access potential liquidity opportunities. Broker selection in such instances will continue to be dictated by best execution principles. When our order flow in Japan and Asia does not require a real time presence, we typically give orders to brokers with strict price or volume limits or on a 'careful discretion' basis to be measured against benchmarks such as but, not restricted to, the Volume Weighted Average Price (VWAP) on the day.

### **Risk Capital**

When we have orders that require immediate execution, the relative importance of speed may be higher than price or cost. In these situations, our traders would weigh the merits of using broker's capital in the form of a principal risk trade, where the guarantee of completion outweighs the cost of discount or premium attached to that risk. As discussed earlier in the document, where a decision is made to trade against a risk price made by one of our approved trading counterparts, then the responsibility for best execution stays with our trader.

### **Algorithmic Trading**

We typically use algorithmic trading primarily for orders that do not require a 'high-touch' execution service from our brokers. For example, a relatively small order in a liquid security can be worked in the market against a suitable benchmark with the minimum of cost or market impact. The broker's 'smart order router' will define the optimum amount to trade at the best price and on which venue, subject to the parameters we have adopted with the algorithmic strategy chosen. We select our brokers for algorithmic trading based on previous execution performance and the transparency of their order handling processes.

### **Program Trading**

Our traders also use Program Trading extensively when investing new money for clients, dealing with client outflows or implementing asset allocation changes. When trading in multiple securities for one client at the same time, a Program Trade will typically be more efficient and a more cost effective, through lower execution commissions, way of transacting. Our traders, at their discretion may remove trades from a program to be worked as single stock orders. The reason for doing so would be because that particular instrument has a different liquidity profile to the rest of the trade or there are already large orders being worked in that name for other clients. When the trader chooses to execute a risk Program Trade (where the broker is asked to use its proprietary capital in facilitating the trade), we generally ask two or more brokers to compete for the business.

### **Timeliness of Execution**

The length of time taken to execute each order depends on its size and the natural liquidity in the market. Our traders are mandated to complete the trade as soon as practicable under the existing market conditions, with the overall aim of minimising market impact and obtaining best execution. Our traders have discretion to set price limits and quantities to be traded based on these factors, and they liaise with the portfolio managers during the course of an order. The trading desk's central location on our investment floor facilitates an open flow of communication.

### **Crossing Between Clients or Funds**

Our traders generally refrain from crossing stock between clients owing to the potential conflict of interest which this involves. On the rare occasions that crossing is in the interests of both parties; is permitted and the trade meets best execution requirements for both clients, the agency cross would be executed in a timely manner through a broker in the market.

### **Access to and Allocation of IPOS (including new bond issues) and Sub-Underwritings**

At Baillie Gifford we use specific criteria to identify the companies that we believe will generate above average returns for our clients and we aim to maximise the potential of these investments by running relatively concentrated portfolios. We apply the same investment criteria to IPOs and sub-underwriting and, as a result, our participation in both is limited. We will only take part in an IPO or an underwriting if we believe that the company involved represents a good investment according to our usual criteria. IPOs and underwriting do not have a significant impact on our trading patterns and under no circumstance would we enter into any agreement around future trading volumes in order to secure allocations.

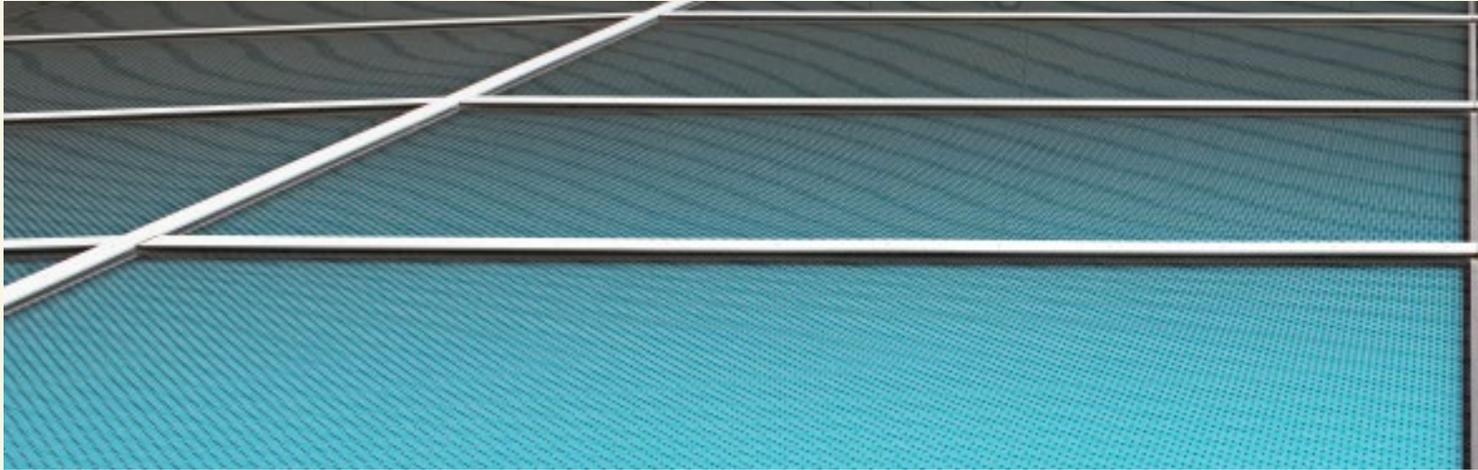
On the occasions that we do participate in IPOs or underwritings we follow procedures to ensure fair treatment of our clients. Transactions are allocated among participating clients, as detailed in the supplemental note on 'Conflicts of Interest'. Our in-house restrictions system also ensures that only those clients that are prepared to take part in sub-underwriting do so.

### **Variation in Rates of Equity Commission**

The majority of our equity transactions are conducted on an agency basis and, as a result, bear commission charges.

Execution-only commission rates are negotiated on a market by market basis and, except for exceptional circumstances are applied across all trading counterparts. Commission rates are reviewed on a periodic basis based on independent surveys; third party analysis from TCA vendors; and general market intelligence.

Program trading involves combining a basket of stocks together into a single trade and can also lead to a variation in rates of commission. Program trades are carried out through a broker working either as a principal or as an agent. When a broking firm acts as principal it takes on the risk of a trade and thus eliminates our clients' exposure to market movements. When the broker acts as agent the risk of the market moving against us remains with the



client until completion of the trade. The commission or 'mark-up' for a principal risk program trade is typically higher than that for an agency program trade as the broker is taking the trades on risk. However, when volatility in markets is high, a principal trade which is completed immediately at a higher mark-up may turn out to be cheaper from a total cost perspective than an agency trade which may take a few days to complete.

Use of algorithmic trading allows our traders to deal directly in the market using broker supplied trading algorithms, without any additional execution services from the broker, such as capital commitment or sales trader contact. Where our traders believe it will provide the best overall outcome for our clients, they will choose to use a broker's proprietary algorithmic platform. The commission rate charged on algorithmic trades is slightly lower than that charged when an order is routed to a sales trader but we will also be judging ex-ante the total cost of trading including impact cost when deciding on the appropriate trading strategy.

Clients that have a disproportionate number of transactions executed in either programs or algorithms during the quarter (for example, if they have had a change of benchmark or have given us new money to invest) will see a lower rate of overall commission for the quarter than the firm-wide average rate. On the other hand, a higher rate than the Baillie Gifford average is likely to result for clients that invest in less liquid stocks and less developed markets. We disclose comprehensive information on costs and charges, including commission, to our clients on an at least annual basis. There are various industry and regulatory initiatives currently underway to improve transparency of costs and charges incurred by clients and Baillie Gifford will be supporting the implementation of these measures.

#### **Commission Recapture and Directed Brokerage**

When instructed to do so, Baillie Gifford participates in commission recapture programs operated by its clients. However, very few brokers now participate in such arrangements and as a result we do not guarantee specific amounts to be returned to the client from these programs.

We may accept client directed brokerage arrangements to brokerage houses of the client's choice (including directed business to 'minority' brokers), so long as the brokerage houses in question are on our list of approved brokers. We may override a client's instruction for directed brokerage if it is clearly not in the best interest of the client to trade with that broker from a best execution perspective. Occasionally, a client who has requested directed brokerage may not be able to participate in block or aggregated trades, which may adversely impact the price or the commission the client pays.

Higher levels of recapture and directed trades may potentially affect the commission rates paid and may ultimately impact the prices at which trades are executed, therefore impeding overall performance.

#### **Dealing Systems**

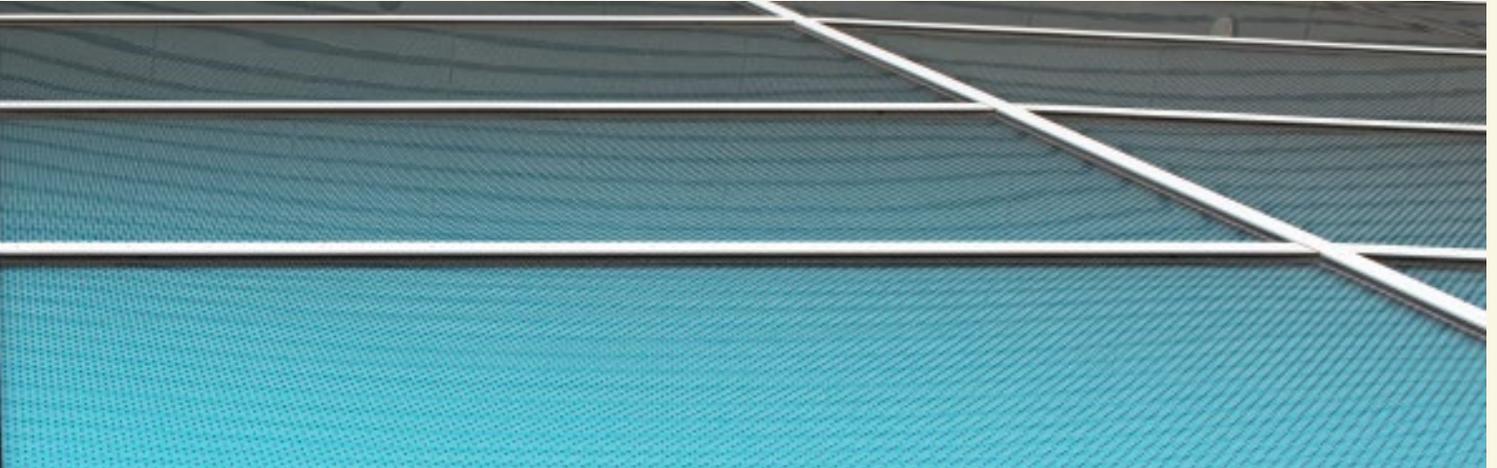
All equity orders are sent to brokers or crossing networks electronically via Bloomberg's Electronic Management System (EMSX), using FIX protocol. Our internal Order Management System feeds information electronically into EMSX and receives back execution fills without any need for re-keying of data. This significantly reduces the potential for human error in the trading process and also increases efficiency on our trading desk.

A full description of the oversight of execution quality across all instrument types is detailed in section six.

#### **(ii) Bonds**

Over the counter (OTC) products are not executed on an order book so it is essential we have the most appropriate counterparties available to us to source the liquidity we require. The choice of counterparty and strategy for trading will be determined by our trader depending on the asset class involved.

Where we trade more liquid instruments, such as G10 sovereign bonds (e.g. U.S. Treasuries, Bunds and Gilts), or some higher rated corporate bonds, we execute electronically using a 'request for quote' (RFQ) model. We typically ask between three and six counterparties to quote, depending on the price sensitivity of the quote request, with the best price securing the order.



In less liquid government and corporate bonds, where liquidity and price sensitivity are more of an issue, we try to source natural flow to match our trading. Brokers advertise their inventory via Bloomberg and other pre-trade venues such as Neptune and Algomi and we are in regular contact with our trading counterparties. Should we not be able to achieve a natural match, we use our discretion as to the optimum way to execute each individual trade. For smaller size tickets we may ask a number of brokers to quote, but for larger, more sensitive orders, we typically work at an agreed price limit with one counterparty who we select using the pre-trade information available to us. Owing to the nature of Emerging Market (EM) local currency bond trading, most price discovery and execution takes place by voice or messaging, while EM hard currency has greater transparency and is more likely to be executed on a trading venue.

The execution model in fixed income instruments, while still predominantly one of bilateral risk pricing executed by voice, has shifted to see an increase in our ability to execute on a trading venue as well as our need to place an order with a broker to work on in the market. While there is no explicit trading fee as such, the broker working the order may add an agreed small spread on to the price for matching the buyer and seller. In any instance where a trading fee applies on our trading venues, the Baillie Gifford traders will gather market intelligence to ensure what is being charged is fair and reasonable.

Where we choose to trade on a venue we have the opportunity to become a price-maker as well as a price-taker which offers us an opportunity to create liquidity and save on the spread cost between the bid and the ask price. As with all cases where we trade directly on a trading venue, the responsibility for best execution lies with Baillie Gifford. Trading on a venue also increases the number of counterparts that we may interact with through what is known as 'All to All' trading. In this situation it provides us with access to trade with a wider range of market participants yet face the venue directly for settlement purposes. As with other asset classes, the Baillie Gifford trader is responsible for ensuring we only settle a trade against an entity on our approved counterparty list.

In some government markets, such as UK treasury bills, there is very little liquidity in the secondary market and therefore we will participate in the primary auctions to buy bonds. This involves us placing an order with the local market equivalent of the UK's Debt Management Office via a broker, stating how many bills we wish to buy and a level we are prepared to pay. Should the tender clear at our limit or better our order will be filled.

#### **Crossing Between Clients or Funds**

On the rare occasions that buying and selling a bond between two clients or funds is in the interests of both parties; is permitted and the trade meets best execution requirements for both clients our traders will cross between funds at a mid-market price. There are various platforms offering this service and we have chosen ICAP's Cross Trade platform to process these trades. We believe that ICAP's fair value price is determined through independent data sourcing (ICE Data Services) and offers a robust price discovery tool. Cross Trade charge a fee on either side of the trade which is built in to the executing price. Where ICAP do not have confidence in the price, typically local Emerging Market bonds, and therefore do not support the security, our traders will speak to at least 3 banks to determine the correct bid offer spread and execute at the mid-price paying a small fee to the executing counterparty.

#### **New Bond Issues**

When investment banks bring new issues to the market to allow companies to either refinance existing debt or raise new funds. Should we wish to participate in such a transaction we will place an order with the lead manager on the deal. If the issue is oversubscribed then the syndicate desk of the investment bank leading the deal is ultimately responsible for determining upon the allocation split between all clients who have placed a firm order. Should we not receive a full allocation, we may purchase more bonds in the secondary market to supplement our new issue allocation; this will typically depend upon the price movement and the availability of bonds in the market post the issue. Baillie Gifford does not offer investment banks any inducement in the form of promises of future trading flow to influence any allocation received but may engage with the issuer's management at a fundamental level.

### **(iii) OTC Derivatives**

All derivatives must be traded under industry legal documentation. This means our choice of counterparty for trading interest rate swaps, inflation swaps, OTC futures and currency forward contracts is generally limited to those banks where the required documentation is in place. As with the process for bond trading detailed above, how we execute a derivatives trade will very much be dependent on the size of the transaction and the liquidity available.

Virtually all our EM swaps trading takes place by voice or messaging with the number of counterparties selected to quote depending on the size (DV01) of the trade. When we come to close our swaps positions we have the ability to novate to another counterparty, although the preferred process is to close with the existing counterparty so as to avoid any potential novation costs. Where it is possible the trade will then be executed on an electronic trading venue.

We now centrally clear all interest rate and inflation swaps that are supported by LCH which we have chosen as our clearing house. Once a trade is executed, the transaction is passed to HSBC, which we have appointed as our central clearer. We have legal documentation (Cleared Derivative Execution Agreements), in place with a number of counterparties allowing us to get competing quotes via an electronic trading platform such as Tradeweb. As our volumes are relatively light in this area, we have no current plans to appoint any further clearers.

### **(iv) Listed Derivatives**

Listed futures in both equity and bond contracts are placed with an approved trading counterpart which will then trade these on a trading venue. The executed trades are then passed to UBS which acts as our Futures Clearing Member.

### **(v) Foreign Exchange**

Foreign Exchange trades (FX) are either conducted through our clients' appointed custodian bank or through a third party bank on Baillie Gifford's approved list of trading counterparts.

Baillie Gifford undertakes an active negotiation process with regard to those direct FX transactions it undertakes for clients. For the avoidance of doubt, Baillie Gifford shall not employ 'best execution' or actively negotiate rates with regard to those indirect FX transactions which are undertaken for clients by third parties such as the clients' custodian. Indirect FX transactions are those undertaken without Baillie Gifford's active involvement such as income repatriation trades and restricted currency trades. Indirect FX transactions may arise as a result of standing instructions at the custodian or if Baillie Gifford trades in a market where local requirements dictate that any FX trade or income related to it has to be traded by a local party, typically the client's custodian or sub-custodian.

Where Baillie Gifford does retain responsibility for foreign exchange trading, all dealing is executed via the FX Connect MTF, which allows electronic routing and execution of trades. Prior to trading, and where permitted, currency exposure will be netted as much as possible to ensure we are trading in the most efficient manner. All rates offered by our banks are checked against live streaming prices on Bloomberg or Reuters; should the rates quoted be unsatisfactory, they will be challenged to ensure we are receiving the best execution.

All foreign exchange spot trading undertaken by Baillie Gifford is actively negotiated. Trades are either executed with the clients' custodian bank or with a bank from our approved list of third party counterparties. For certain transactions we would put banks in competition with each other. This would depend on currency pair, size of deal and market conditions at the time but typically we would ask 3-4 banks to quote on each trade using the 'Request For Streaming' (RFS) functionality within FX Connect. Trades in larger size may be dealt through one counterparty selected by our trader based on a number of factors including previous execution quality; urgency and whether shorter settlement is required.

Our policy is not to speculate on currency movements and we therefore will trade our FX business as soon as we know it is required. Our cash management team monitor clients' cash positions during the day and will send FX requirement reports to our trading team when required. This information is sourced directly from our internal accounting system. Where at all possible, and where permitted, we will net positions across accounts in an effort to trade in the most cost efficient manner. We run two main cash management reports, one in the morning and one in the afternoon so this tends to be the driver of the timing of our execution, although we also execute ad-hoc trades when required.

Deliverable and Non-Deliverable FX Forwards are typically traded with one counterparty from our approved counterparty list at the trader's discretion. Should there be a need to close out a forward or roll to a future date, this would typically be done with the same bank, subject to any execution quality concern or counterparty credit concern.

### **(vi) Collective Investment Vehicles**

Where Baillie Gifford wishes to deal in a third party managed collective investment vehicle on behalf of clients, our policy is to route the orders to the Transfer Agent of the underlying fund. Where possible these instructions are transmitted electronically to platforms including FundSettle and BBH Worldview. There may still be instances where the trader will be required to send these instructions via email or facsimile depending on the Transfer Agent's requirements.

Where one of our strategies wishes to invest in a Baillie Gifford managed fund, orders are electronically routed by the traders to our in-house platform.

### (vii) Placing of Deposits

Generally, Baillie Gifford is an active manager, with portfolios that are typically fully invested with minimal residual cash balances maintained at the client's custodian. For any exceptions to this, where cash is placed on deposit away from the custodian, Baillie Gifford will only utilise a bank from our list of approved banks.

On a quarterly basis Baillie Gifford reviews and approves the list of eligible banks for accepting such third party deposits.

A list of each of the execution venues and entities currently used by Baillie Gifford for trading the financial instruments mentioned in this section 5 is attached in Appendix 1. In exceptional circumstances, we may use a venue or entity not currently listed in this Policy, for example on a provisional basis or to accommodate a request to trade in an unusual instrument or new issue, with a view to satisfying the overarching best execution requirement.



## 6 REVIEW, GOVERNANCE AND OVERSIGHT

The Best Execution Group (BExG) is chaired by the Head of Compliance and is responsible for the oversight and governance for the policies, procedures and practices governing the Best Execution arrangements for Baillie Gifford. It reports up to both the Compliance Committee and Dealing Management Group and ultimately to the Investment Management Group and Baillie Gifford Overseas Ltd Board (which is responsible for our trading arrangements). The BExG meets on a monthly basis and the Dealing Management Group quarterly.

As referred to earlier, our Best Execution Policy is formally reviewed at least on an annual basis. The purpose of the review is to carry out an overall assessment of whether this Policy is and Baillie Gifford's execution arrangements are reasonably designed to enable the firm to obtain the best possible result for the execution of its client orders, is accurate and up to date.

This review will include consideration of the inclusion of additional or different execution venues or entities; the removal of any existing execution venues or entities which we believe should no longer be used for trading; and any modifications required to this Policy, including the relative importance of the best execution factors.

These changes will come about as a result of feedback on client experiences from our oversight of best execution, including data from trading analytics as well as qualitative input from the traders based on changes to either market structure or general trading conditions.

The Policy will also be reviewed on the occurrence of a material change in our dealing arrangements or a material change in our underlying regulatory obligations. For the purposes of the Policy, a material change means a significant event of an internal or external nature that could impact factors or parameters of best execution such as cost, price, speed, likelihood of execution, likelihood of settlement, the ability to retain anonymity in the market, prevention of information leakage, size, nature of order or any other consideration relevant to the execution of the order.

The Policy is a 'living document' and will be periodically updated based on client experience and as a result of our best execution oversight. We will also update the list of execution venues and entities when necessary. We will only notify clients of any material changes to our execution arrangements or the Policy. Clients will not be notified separately of anything deemed non-material. The addition or removal of a broker from our approved list, for instance, would not typically be deemed a material change.

### MONITORING ADHERENCE TO THIS POLICY

We monitor our adherence to the Policy and our regulatory obligations in this area through the firm's compliance risk assessment framework and monitoring programme, with oversight from the Best Execution Group.

## MONITORING OF TRADING

The purpose of our monitoring programme is twofold. Firstly, to test the effectiveness of our overall execution arrangements and, secondly, to have oversight of our regulatory obligations on best execution.

Through a combination of forensic testing, sample analysis and Transaction Cost Analysis, we seek to identify any trends or outliers against relevant benchmarks e.g. indicative market rate and interval Volume Weighted Average Price.

We also have a requirement to monitor and review the execution quality of the brokers and other entities used to ensure continued compliance with our order execution arrangements and Policy. We are therefore responsible for monitoring and reviewing our own internal processes for ensuring the selection of appropriate venues to enable the achievement of 'best execution' for the trading we actively undertake. We also evaluate the order execution arrangements of the counterparts through whom we actively trade on behalf of clients (for example, by receipt and review of their execution policies where governed by MiFID) as well as the execution quality of these entities.



## BROKER SELECTION

Our Policy is to take all sufficient steps to determine that when transmitting or placing an order with another entity to execute, it has arrangements that will enable Baillie Gifford to comply with the overarching best execution obligation.

In the case of an entity subject to the requirements of MiFID, we will look to obtain and review appropriate information on their execution policy and execution arrangements and ensure that we are treated as a Professional Client of that entity.

In the case of entities which are not subject to MiFID, we must take all sufficient steps to satisfy ourselves that the entity has execution arrangements that allow them to comply with the overarching best execution requirement. In any case where we cannot satisfy ourselves of the above matters, it is our policy not to use that entity.

Baillie Gifford has relationships worldwide with a large number of brokerage firms. Our Business Risk Department maintains a central list of approved brokers with whom orders can be placed. Brokerage firms are placed on this subject to an authorisation and ongoing monitoring process, which includes, but is not limited to, the broker's credit worthiness and financial stability, a review of the performance of execution services provided by the broker, and the broker's ability to trade effectively on our clients' behalf. Limits on counterparty risk are also set for individual brokers and our Business Risk Department review and monitor exposures against these limits on a daily basis.

Broker selection for trading is determined entirely by the requirement to achieve best execution for our clients. A formal evaluation of brokers' services is conducted semi-annually by all members of our trading team. We also meet with each of our main brokers on a regular basis. During these meetings, we discuss any specific service issues which our traders have encountered during the period.

From 1st January 2016, we moved to execution-only commission rates to compensate brokers for equity trading, away from the previous 'bundled' format whereby client dealing commission included an element for permitted research services in addition to execution.

## TRADE MONITORING

Transaction costs can be broken down into two components: explicit costs of trading include commissions and taxes, whilst implicit costs include market impact and opportunity costs. The implicit costs arising from the poor timing of orders can far exceed the explicit costs.

## EXPLICIT COSTS

As noted earlier, we periodically review our clients' rates of commission paid against the industry averages, against information supplied by independent sources as well as our own market intelligence and will negotiate with the brokers and other entities used in order to retain rates that are competitive in each market. Baillie Gifford does not trade synthetically (for example, through the use of Contracts For Difference (CFDs) in order to avoid any tax liability.

## IMPLICIT COSTS

We define market impact as the difference between the price of a financial instrument when an order is placed with a broker and the price of the when the transaction is finally executed. Similarly, we define opportunity cost as the difference between the price of a share when an investment manager decides to transact and the price of the share when the order is placed with a broker.

Baillie Gifford subscribes to trading analytics supplied by Transaction Cost Analysis providers covering all equity, fixed income and foreign exchange transactions executed by Baillie Gifford traders. In some markets, the analysis is still in its infancy and it is our intention to subscribe to services in all asset classes we trade as it is developed and becomes available.

The TCA vendors have been chosen for their ability to provide deep best execution analysis across a broad array of metrics. The oversight will deliver meaningful management information to Dealing, Compliance, Risk and Baillie Gifford's governing bodies on the quality and appropriateness of our execution arrangements and policies, as well as informed reporting to our clients.

The effectiveness of our order execution arrangements are monitored by the Baillie Gifford Trading desk during the life cycle of the order. Trading data provided by our TCA providers and from within our Execution Management System allows the traders to measure the effectiveness of our order execution arrangements on an ex-ante and an ex-post basis. Throughout the lifetime of the trade, the traders maintain an appropriate level of dialogue with the investment team. On occasion, Baillie Gifford's active investment style and concentrated position sizes may have a negative impact on transaction costs, and in particular on indirect costs.

MiFID II (RTS27) requires that trading and execution venues publish execution quality data. We may choose to use this data in our own analysis and would also anticipate our trading analytic (TCA) providers incorporate this in their own studies to determine any potential conflicts of interest in their respective models.

The Compliance Department also monitors adherence to our execution policy and regulatory requirements through systematic testing, sample analysis and Transaction Cost Analysis to analyse the trading conducted as part of its regulatory risk assessment framework and monitoring programme. A summary of results is presented to the Best Execution Group on a monthly basis and any exceptions are also then included within the assurance reporting to the Compliance Committee.

The Best Execution Group also undertakes a quarterly review of the performance of all trading undertaken by Baillie Gifford on behalf of its clients, regardless how it was executed. This includes trades executed through approved broker Algorithms and other Electronic Trading platforms. Any issues identified which indicate the potential that clients may be due compensation or a change in our processes may be warranted will be investigated and tracked by the BExG through to conclusion.

On top of the review of our existing execution arrangements, it is also important for us to consider the potential performance benefits and execution capabilities of new trading and execution venues. This can be achieved partly through the use of data but also through industry engagement through various trading related forums as well as through bodies such as the Investment Association. Baillie Gifford is also a founder member of the Plato Partnership, a not for profit organisation made up of asset managers and brokers who are working together to bring creative solutions and efficiencies to the equity market place. The Dealing Team also meets regularly to discuss its processes; lessons learned from notable trades and how we are implementing change.

Baillie Gifford encourages its trading team to continue in its professional development and Baillie Gifford provides regular Anti-Money Laundering and Avoidance of Market Abuse training as well as briefings on other topical subjects.

As a firm we rely heavily on the experience of our trading team to minimise transaction costs. Good communication between our investment managers and traders has also proved to be vital to effective trading.

## INCIDENT RESOLUTION

Baillie Gifford has incident reporting, escalation and resolution policies.

It is our expectation that our trading counterparty has sufficiently robust Client Order Handling Policies covering both primary and secondary trading so, in line with our own allocation policy, the broker's clients are all treated fairly. Should we find this not be the case and our traders believe the counterparty has behaved poorly then we will first look to resolve the matter bilaterally before escalating it as deemed appropriate in the context at that time. An example of what we would consider poor market behaviour would be where Baillie Gifford's client allocations are negatively impacted by the broker sharing our trade with a counterparty who had not left them with a firm order or where that client was given a greater allocation than the order they had given to the broker. It should be noted such behaviour will be judged in the context of the circumstances at that time, as in some circumstances it could be deemed appropriate.

Similarly in the case of any trade dispute, the traders will first look to resolve the issue with the trading counterparty before escalating it within both firms. In no situation will the Baillie Gifford trading team undertake to a broker to provide future order flow or other compensation in respect of the remediation of any trading error.

## 7 ANNUAL PUBLIC DISCLOSURE

On an annual basis Baillie Gifford is required to publish data on its website covering its top five execution venues, in terms of trading volume, per asset class. We also separately report, where relevant, the top five entities, (brokers), where we have placed orders, on behalf of clients for execution.

Additionally we publish a summary of the analysis and conclusions from our detailed monitoring of the quality of execution obtained.

The reports will be approved by the Best Execution Group prior to publication. The first reports, covering the calendar year 2017, will be available to review at [www.bailliegifford.com](http://www.bailliegifford.com) by 30 April 2018.

## 8 DEFINITIONS

In this document, the following definitions will apply:

**Agency cross** – when a buyer and a seller trade with each other in size within the bid/ask spread (usually done at the middle price).

**Algorithmic trading** – the use of a broker's electronic proprietary tools to allow a manager to run trading strategies for their orders (such as matching the volume weighted average price or trading a percentage of daily volume).

**Best Execution** – under MiFID, investment firms are required to take all sufficient steps to obtain, when executing orders, the best possible result for their clients, taking into account price, costs (implicit and explicit), speed, likelihood of execution and settlement, size, nature, the ability to retain anonymity in the market or any other consideration relevant to the execution of the order. The obligation requires firms to obtain the best possible result on a consistent basis, but not on an order-by-order basis.

**Bid/Ask spread** – the difference between the market price quotations for buying and for selling particular securities.

**Commission Recapture** – the process whereby a client directs a manager to place trades through a specific broker, in exchange for which the client will receive a rebate of a portion of the total commission paid, assuming that the particular broker has agreed to take part in a recapture programme. Our ability to achieve the best possible result i.e. best execution and hence our obligation to do so, will be limited to the extent that we are following a specific instruction from our clients when placing an order with another entity for execution.

**Crossing Network** – an electronic execution venue that enables asset managers to match buying and selling orders in securities directly with other asset managers and occasionally other brokers and market participants, away from the primary exchange, but using the best bid and offer price from the market as a reference.

**Execution Venue** – we define an execution venue as either a broker we have given an order to work or a market maker we have traded against on risk.

**Explicit costs** – means direct costs such as a trading commission, ad valorem tax or other fee.

**FIX** – the Financial Information Exchange protocol is a technical specification for the sending and receiving of electronic trading information between buyers and sellers in the market.

**Implicit Cost** – this refers to the market impact of the execution. For equities, this is the difference between the price of a financial instrument when an order is placed with a broker and the price of the when the transaction is finally executed.

**MiFID** – the Directive 2014/65/EC of the European Parliament and of the Council of 15 May 2014 and Commission Regulation (EU) No 600/2014 of 15 May 2014 and any applicable implementing EU legislation, delegated acts (directives or regulations) and technical standards.

**Multi-Lateral Trading Facility (MTF)** – means a multi-lateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments in the system and in accordance with its non-discretionary rules in a way that results in a contract in accordance with the provisions of Title II of MiFID.

**Opportunity cost** – the loss (or gain) incurred as a result of delay in completion of a transaction following a portfolio manager's initial decision to trade.

**Organised Trading Facility (OTF)** – a multilateral system that is not a Regulated market or MTF. Within an OTF, multiple third-party buying and selling interests in bonds, structured finance products, emission allowances or derivatives are able to interact in a way that results in a contract. Equities are not permitted to be traded through an OTF.

**Program Trade** – is a basket of multiple securities all being executed with a defined benchmark. These may be executed on an agency or principal basis.

**Regulated Market** – a multi-lateral system operated and/or managed by a market operator which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments in the system and in accordance with its non-discretionary rules in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions of Title III of MiFID.

**Request For Quote (RFQ)** – refers to a process where trading counterparts are invited to quote a price to either buy or sell a particular financial instrument in an agreed quantity.

**Request For Stream (RFS)** – allows Dealers to show clients more frequently updated rates during an inquiry, keeping prices even more accurately in line with market movements.

Smart Order Router – the routing technology used by a broker to send parts or full orders to the venues it chooses in order to obtain the best result for its clients. Dynamic routing is automated to allow the routing engine to move orders quickly from one venue to another to maximise the best outcomes based on prices and volumes.

Systematic Internalisers – investment firms which, on an organised, frequent, systematic and substantial basis, deal on own account by executing client orders outside a regulated market, MTF or OTF without operating a multilateral system.

Trading Venue – a regulated market, MTF or OTF acting in its capacity as such, and, where appropriate, a system outside the EU with similar functions to a regulated market MTF, or OTF.

VWAP – Volume Weighted Average Price. This is the average price of a stock over a particular time period, weighted by the volume traded at each price over that period.

## **INFORMATION TO CLIENTS**

We are obliged to provide appropriate information to our clients about our Execution Policy which is designed to highlight the key aspects of our Policy. In addition, we have to notify our clients of a material change as described earlier in this Policy.

This disclosure is initially provided to a new client as part of the investment management agreement, in order that we can evidence the provision of appropriate information in good time before the provision of the service and we also request the client's consent to the Policy and prior express consent to the execution of orders outside a Trading Venue.

This Policy has been prepared as at 1st November 2017.



## APPENDIX 1 – EXECUTION AND TRADING VENUES

Please note that arrangements may vary depending on contractual arrangement with clients.

### A. EQUITIES

The approved counterparty list as at the date of this Policy is set out below. Reference to a parent company includes subsidiaries and affiliates of that trading counterpart.

Allen & Co	HSBC Bank Plc	Numis Securities Ltd
Banco Santander	ITG Europe	Panmure Gordon (UK) Ltd
Barclays Bank Plc	Instinet	Pavilion Global Markets Ltd
BNP Paribas	Investec	Peel Hunt LLP
BTIG	J&E Davy	Pictet Global Markets (UK) Limited
BTG Pactual	JP Morgan Chase Bank NA	Raymond James Financial International Ltd
Canaccord Genuity	Jeffries International (Holdings) Ltd	Redburn (Europe) Limited
Cantor Fitzgerald Europe	Joh. Berenberg Gossler & Co	Robert W Baird & Co Inc
Cenkos Securities	Kepler Chevereux	Royal Bank of Canada
CICC (HK) Ltd	Korea Investment & Securities Co	Royal Bank of Scotland plc
CICC (UK) Ltd	Kotak Mahindra Bank Ltd India	Samsung Securities (Europe) Ltd
Citigroup Inc.	Liberum Capital Limited	Sanford C Bernstein Limited
CLSA (UK)	Liquidnet Europe Limited	Sberbank CIB (UK) Limited
Cowen and Company	Luminex Trading & Analytics LLC	Seaport Global Securities LLC
Credit Lyonnais	Macquarie Capital (Europe) Ltd	Shore Capital Stockbrokers Ltd
Credit Suisse	MainFirst Bank AG	Sinopac Securities
Daiwa Capital Markets	Merrill Lynch International	SMBC Nikko Capital Markets Ltd
Danske Bank AG	Mizuho International Plc	Societe Generale
Deutsche Bank	MM Warburg & Co Kga	Stifel Nicolaus Europe Limited
Equita SIM S.p.A.	Montrose Securities International	UBS AG
finnCap Ltd	Morgan Stanley	Weeden & Co
Goldman Sachs International	Nimrod Capital	William Blair & Co LLC
Goodbody Stockbrokers	Nomura Holdings	Winterflood Securities Ltd
Ho Chi Minh City Securities Corporation	Nplus1 Singer Capital Markets Limited	

### B. EQUITY ALGORITHMIC TRADING

We use algorithmic trading tools provided by the following brokers to assist us for certain types of trade:

ITG
Jeffries
Liquidnet
Morgan Stanley
Royal Bank of Canada
UBS

## C. FIXED INCOME COUNTERPARTIES

Aon Capital Markets Ltd	JP Morgan Chase Bank NA	Societe Generale
AUREL BGC	Jefferies International (Holdings) Ltd	Standard Bank plc
Banco Santander S.A.	Liquidnet Europe Limited	Standard Chartered Bank
Barclays Bank Plc	Lloyds Banking Group Plc	Stifel Nicolaus Europe Ltd
BBVA Banco Bilbao Vizcaya Argentaria S.A.	MarketAxess Europe Limited	SumRidge Partners LLC
BGC Brokers LP	Merrill Lynch International	Swiss Re
BNP Paribas	Millenium Advisors LLC	The Seaport Group Europe LLP
Chalkhill Partners LLP	Mizuho International plc	The Toronto-Dominion Bank
Citigroup Inc.	Morgan Stanley	TPCG Financial Services Agente de Valores SA
Commerzbank AG	National Australia Bank Limited	Tradeweb Direct LLC
Credit Suisse	Nomura Holdings	Tullett Prebon (Securities) Ltd
Deutsche Bank AG	Rabobank	UBS AG
Goldman Sachs International	Ria Capital Markets	Unicredit S.p.A
Guy Carpenter & Co LLC	Robert W Baird Ltd	US Bancorp Investments, Inc.
HSBC Bank Plc	Royal Bank of Canada	Wells Fargo Securities LLC
ICAP Securities Ltd	Royal Bank of Scotland plc	
Imperial Capital, LLC	Seaport Global Securities LLC	
ING Bank	SMBC Nikko Capital Markets Ltd	

## D. DERIVATIVE AND FX COUNTERPARTIES

### Exchange Traded Derivatives

Baillie Gifford has clearing and execution related arrangements with the following investment banks:

#### Clearing

Barclays  
UBS

#### Execution

Barclays  
Deutsche Bank  
Goldman Sachs  
HSBC Bank plc  
Morgan Stanley  
The Royal Bank of Scotland  
UBS

### Over-The-Counter Bilateral Derivatives (swaps and currency forwards)

Barclays  
Deutsche Bank  
Goldman Sachs  
HSBC Bank plc  
J.P. Morgan Securities  
Merrill Lynch International  
National Australia Bank Ltd  
Royal Bank of Canada  
Standard Chartered  
The Royal Bank of Scotland  
UBS

### Over-The-Counter Cleared Derivatives (swaps)

#### Clearing

HSBC Bank

#### Execution

Barclays  
Deutsche Bank  
HSBC Bank  
J.P. Morgan Securities  
Bank of America Merrill Lynch

### Spot Foreign Exchange Trades

Client appointed global custodian bank and the following banks for third party trading where permitted.

Bank of New York Mellon  
Brown Brothers Harriman  
Northern Trust  
National Australia Bank  
Royal Bank of Canada  
State Street

## E. ELECTRONIC TRADING VENUES

Baillie Gifford may also execute trades on the following venues:

### Fixed Income

Bloomberg  
BGC  
Liquidnet  
MarketAxess  
Tradeweb

### Collective Investment Schemes

For the trading of collective investment schemes, the following electronic trading platform is used:-

BBH Worldview  
FundSettle

### Foreign Exchange

The trading of foreign exchange is executed on the following venue:

FX Connect





