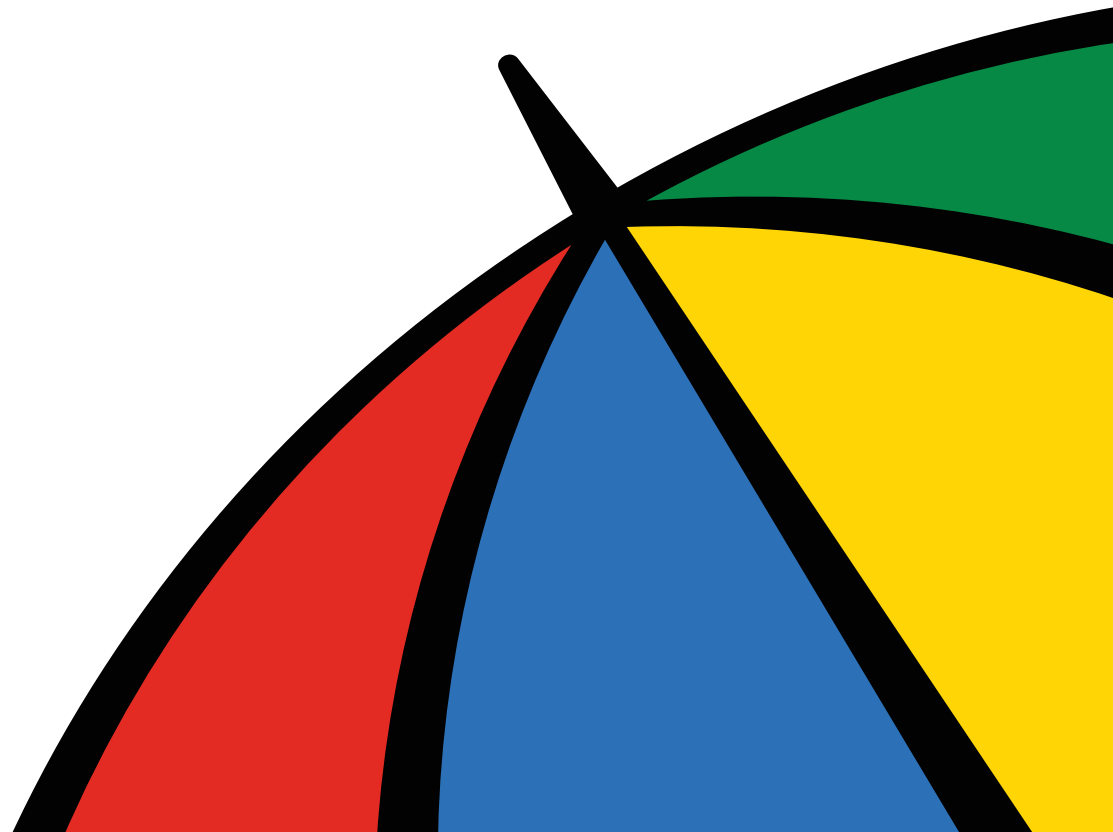


# **LGIM's** **Execution Policy**

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# LGIM's Execution Policy for professional clients

This document sets out the Execution Policy for Legal and General Investment Management (LGIM), as required by the Markets in Financial Instruments Directive ('MIFID') 2014/65/EU and the Financial Conduct Authority's ('FCA') Conduct of Business Sourcebook ('COBS').

The following entities are in scope for this policy;

- LGIM Ltd
- LGIM International
- LGIM Asia

Collectively herein as "LGIM". This document applies only to clients classified by LGIM as professional clients.

## 1. Introduction

LGIM takes all sufficient steps to obtain on a consistent basis, when executing or placing client orders, the best possible outcome for our clients. Client orders refer to transactions in financial instruments which LGIM, in its role as discretionary portfolio manager for client assets, chooses to execute or transmit. It also applies to the extent that LGIM undertakes execution only activity on behalf of clients.

### 1.1. Execution and placement

In its role of providing portfolio management services, LGIM both executes client orders with execution venues and places client orders for execution with brokers.

'Execution' is where, as a member or participant in a regulated market, multi-lateral trading facility (MTF) or organised trading facility (OTF), LGIM executes a client order directly on the execution venue. LGIM may also execute orders with a systematic internaliser (SI), market maker or another liquidity provider on a request-for-quote basis. Where LGIM matches liquidity internally without utilising an MTF or broker, this also constitutes executing a client order.

'Placement' is where LGIM transmits an order to a broker for it to execute. In these circumstances the broker will choose the venue on which the order is ultimately filled or choose to execute it against its own book.

In both scenarios, LGIM owes its clients best execution and takes all sufficient steps to consistently obtain the best possible result when executing or transmitting orders.

To this effect, LGIM has established an execution policy and procedures which are designed to obtain the best overall execution outcome, taking into account the execution factors outlined below. Subject to any specific instructions, we will apply our market knowledge and skills in determining the factors that need to be taken into account for the purpose of providing best execution. Our execution policy ensures fair treatment of all clients.

### 1.2. Execution factors

When deciding how and where best to execute an order, we will take into consideration a range of factors including the following:

- **Price:** This refers to the price at which the order was executed
- **Cost:** This refers to explicit costs such as fees, charges and commissions incurred
- **Speed:** This refers to the time it will take to execute an order
- **Likelihood of execution and settlement:** This refers to the probability that we are able to fill and settle the order, or at least a substantial part of it, in its entirety.
- **Size:** This refers to the size of the transaction to be executed and how this affects the price of execution
- **Nature:** This refers to any other factor not previously listed that we deem to be a factor in the execution of a given order.

Generally, price will merit a high relative importance in obtaining the best execution. However, in some circumstances, LGIM may appropriately decide that other execution factors are more important than price. Nevertheless, where there is a specific instruction from the client the order shall be executed following the specific instruction.

When determining the relative importance of the execution factors, the following are typically considered;

- the characteristics of the client portfolio
- the characteristics of the client order

- the characteristics of the financial instrument
- the characteristics of the execution venue(s) the order can be directed to

### 1.3. Counterparty and execution venue selection

Where there are a number of counterparties or execution venues that could legitimately execute a given order, our Global Trading team will use their experience and knowledge to select the most appropriate. Examples of considerations they will take into account include.

- Execution quality (based on historical experience)
- Operational capability
- Observable recent activity in the relevant market
- Ability to commit capital
- Ability to minimise market footprint
- Market insights and knowledge of market structure

## 2. Equities and related securities

- Equities – Shares and Depositary Receipts
- Exchange Trade Products – ETFs, ETNs
- Equity Futures and Options traded on a venue

### 2.1. Execution Process

LGIM operates a fully unbundled equity execution process, as such all of our activity can be considered as execution only. Equity orders are transmitted electronically from our order management system (“OMS”) to our execution management system (“EMS”). From our EMS the Global Trading team has access to a variety of execution channels. Where an order is deemed appropriate for a low touch channel, the Global Trading team will select a suitable execution algorithm from our list of approved counterparties, or alternatively they may instruct a portfolio trading desk electronically via FIX protocol. Where an order warrants a high touch or voice channel, the Global Trading team will similarly seek to instruct the counterparty by FIX protocol where it is possible to do so. In addition to these channels, for Exchange Traded Products and Equity Futures and Options traded on a venue, the Global Trading team may also execute on a Request for Quote basis (“RFQ”). For this process, orders are transmitted electronically from our OMS to a vendor RFQ platform to enable us to electronically gather competitive quotes and execute.

### 2.2. Execution factors and the relative importance assigned to each factor

- **Price:** This will usually be our most important consideration.
- **Cost:** After price, cost is another important consideration. Our commission levels are uniform across our counterparties and are reviewed at least annually, but there are variations in cost depending on the execution channel.
- **Speed:** All orders transmitted to the trading desk have a trading benchmark attached to them. Broadly these can be split into historical benchmarks (such as arrival price) and future benchmarks (such as market on close). The trading benchmark determines how quickly an order is acknowledged and traded.

- **Likelihood of execution and settlement:** This factor increases in importance in situations where access to liquidity in the relevant instrument is constrained in some way. For example, if the security itself is illiquid.
- **Size:** The need to execute in size can be important when we want to either implement or exit a position quickly or where we wish to minimise market impact due to the information leakage associated with partial executions.

### 3. Fixed Income and related securities

- Bonds
- Fixed Income Futures and Options traded on a venue

#### 3.1. Execution process

Bond orders are traded from our order management system (“OMS”). The Global Trading team has access to a variety of execution channels, but the predominant protocol remains Request for Quote (RFQ). Our OMS transmits bond orders electronically via FIX protocol to a choice of multi-lateral trading platforms (e.g. Tradeweb, MarketAxess) for execution. Where an order is deemed appropriate for a low touch channel, the Global Trading team will select a suitable panel of counterparties and enter into a competitive RFQ. Where an order requires a high touch channel, our traders may enter into a non-competitive RFQ either on voice or via alternative electronic communication (e.g. Bloomberg). Once a high touch order is agreed, it is then processed via a trading platform where it is possible to do so. For Fixed Income Futures and Options traded on a trading venue, the process is slightly different. Orders in these instruments are transmitted from our OMS to our EMS. Where an order is deemed appropriate for a low touch channel, the Global Trading team will select a suitable execution algorithm from our list of approved counterparties, or alternatively they may instruct a listed derivatives trading desk electronically via FIX protocol. Where an order warrants a high touch or voice channel, the Global Trading team will similarly seek to instruct the counterparty by FIX protocol where it is possible to do so.

#### 3.2. Execution factors and the relative importance assigned to each factor

- **Price:** This will usually be the most important consideration
- **Cost:** For bonds this is not generally an important factor given that explicit commissions are not charged. For futures and options traded on a venue, commissions are uniform across our counterparties, although there are very slight variations depending on the execution channel (i.e. electronic versus voice).
- **Speed:** All orders transmitted to the trading desk have a trading benchmark attached to them. Broadly these can be split into historical benchmarks (such as arrival price) and future benchmarks (such as market on close). The trading benchmark and urgency level, determines the speed at which the order is traded.
- **Likelihood of execution and settlement:** This factor increases in importance in situations where access to liquidity in the relevant instrument is constrained in some way. For example, if the instrument itself is illiquid.
- **Size:** The need to execute in size can be important when we want to either implement or exit a position quickly or where we wish to minimise market disturbance. Size can therefore be an important factor for fixed income securities.

## 4. Over The Counter (OTC) derivatives

- Interest Rate Derivatives
- Credit Derivatives
- Currency Derivatives
- Equity Derivatives
- Commodity Derivatives

### 4.1. Execution process

OTC orders are traded from our order management system (“OMS”). The predominant execution protocol for OTC derivatives is Request for Quote (RFQ). Our OMS transmits OTC orders electronically via FIX protocol or SFTP to a choice of multi-lateral trading platforms (depending on the underlying asset class this could be Tradeweb, OTCX, RFQ-Hub) for execution. Where appropriate price discovery is conducted electronically via a competitive or non-competitive RFQ process. Where no suitable multi-lateral trading platform exists, price discovery may be conducted via RFQ, on voice or using an alternative electronic communication, such as Bloomberg. Once the economics have been agreed, the order will be booked manually into the OMS.

### 4.2. Execution factors and the relative importance assigned to each factor

- **Price:** This will usually be our primary consideration.
- **Cost:** This is likely the least important factor. Commissions are not charged on OTC derivatives.
- **Speed:** All orders transmitted to the trading desk have a trading benchmark attached to them. Broadly these can be split into historical benchmarks (such as arrival price) and future benchmarks (such as market on close). The trading benchmark and urgency level, determine the speed at which the order is traded.
- **Likelihood of execution and settlement:** This factor increases in importance in situations where access to liquidity in the relevant instrument is constrained in some way. For example, if the instrument itself is illiquid. Generally this is an important factor in achieving best execution for OTC instruments.
- **Size:** The need to execute in size can be important when we want to either implement or exit a position quickly or where we wish to minimise market disturbance. Size can therefore be an important factor for OTC instruments.
- **Nature or any other consideration relevant to the execution of the order:** Counterparty selection may be limited to those where legal documentation has been put in place or be constrained by exposure level restrictions which may impact the best achievable price of any trade.

## 5. Foreign Exchange

- Currency Outrights (Spot & Forward)
- Currency Swaps
- Currency NDFs

### 5.1. Execution process

FX orders are transmitted electronically from our order management system (“OMS”) to our execution management system (“EMS”). From our EMS, the Global Trading team has access to a variety of execution channels. For the majority of our activity, the Global Trading team will either enter into a competitive Request for Quote (RFQ), or select an appropriate execution algorithm. For certain orders, such as illiquid currency pairs or

large size orders, where potential market impact is a consideration, or liquidity is thin for example, price discovery may be conducted via RFQ, on voice or using an alternative electronic communication, such as Bloomberg. Once the economics have been agreed, the order will be booked manually into the OMS. In certain circumstances LGIM may choose to execute on a non-competitive basis if we believe that restricting the number of quotes will achieve a better result for the client. For level specific orders (limit) or benchmark orders (WMR), the desk will place them with one of the approved counterparties to manage on our behalf.

## 5.2. Execution factors and the relative importance assigned to each factor

- **Price:** This will usually be our most important consideration.
- **Cost:** This is not considered an important factor, as explicit commissions are not generally charged on FX. Where traders use a brokers' algorithm or a fixing mechanism small charges are incurred but they are generally harmonised across providers.
- **Speed:** All orders transmitted to the trading desk have a trading benchmark attached to them. Broadly these can be split into historical benchmarks (such as arrival price) and future benchmarks (such as WMR). The trading benchmark and urgency level, determines the speed at which the order is traded.
- **Likelihood of execution and settlement:** This factor increases in importance in situations where access to liquidity in the relevant instrument is constrained in some way.
- **Size:** In relation to FX, the need to execute in size can be important when we want to either implement or exit a position quickly or where we wish to minimise market disturbance.
- **Nature or any other consideration relevant to the execution of the order:** Counterparty selection may be limited to those where legal documentation has been put in place or be constrained by exposure level restrictions which may impact the best achievable price of any trade.

## 6. Money Market and Security Financing Transactions (SFTS)

- Reverse Repo
- Repo
- Time Deposit
- Certificates of Deposit
- Commercial Paper

### 6.1. Execution process

Money market instruments (TDs, CDs & CPs) are traded from the relevant order management system ("OMS"). Generally price discovery is conducted via competitive or non-competitive RFQ, on voice or via an alternative electronic communication, such as Bloomberg. Once the economics have been agreed, the order will be booked manually into the OMS. For Reverse Repo and Repo the orders are raised in our Portfolio Management System (PMS) and the orders are transmitted to our EMS. Again, from here price discovery is conducted via competitive or non-competitive RFQ, on voice or via an alternative electronic communication, such as Bloomberg. Once the trade details have been agreed, the order will be transmitted downstream to our investment operations team and the trade will be reflected in the PMS.

### 6.2. Execution factors and the relative importance assigned to each factor

- **Price:** This will usually be our most important consideration.



- **Costs:** Explicit commissions are not charged on these instruments and so it is not an important consideration.
- **Speed:** Where the instructions dictate or imply a rate at which we should progress the order, at market or otherwise, we will follow the instructions unless we see an immediate and substantial conflict with the price. Where the instructions do not refer to timing we will progress the order at a rate which we believe represents a balance between creating market impact and executing the order in a timely fashion so as to reduce execution risk.
- **Likelihood of execution and settlement:** This factor increases in importance in situations where access to liquidity in the relevant instrument is constrained in some way therefore it is generally an important consideration.
- **Size:** This will often be an important consideration, given the liquidity profile associated with some of these instruments.
- **Nature of any other consideration relevant to the execution of the order:** Counterparty selection may be limited to those where legal documentation has been put in place or be constrained by exposure level restrictions which may impact the best achievable price of any trade. In addition, secondary liquidity can be an important consideration. This refers to the anticipated ability and willingness of a counterparty to buy back / provide liquidity in a transferable money market instrument.

## 7. Collective Investment Schemes

LGIM generally execute transactions in collective investment schemes with the scheme's fund provider or their agent. This can be done by a direct instruction or via an electronic trading platform. Price will be established according to the scheme's particulars or prospectus. Orders will be placed with the relevant fund provider according to the known valuation point of the relevant scheme.

## 8. Trading outside a trading venue

In respect of financial instruments that can be traded on a trading venue it should be noted that, subject to a client's prior consent, some of the orders may be executed outside of a trading venue where we believe we can achieve the best possible result for execution by doing so. Where we execute outside a trading venue, a client may be subject to additional counterparty risk. This is mitigated by our counterparty risk assessment process.

## 9. Counterparty list

We have included in the appendix a list of the main counterparties and execution venues approved for trading across all our trading desks. All counterparties must satisfy our credit, contractual and best execution standards to qualify for the list of approved brokers. Our Counterparty Review Committee (CRC) is responsible for ensuring that the list is monitored and reviewed. Greater frequency of the review is dependent on LGIM's risk assessment of the counterparty. We do not have commission targets for brokers used. In the case of primary market transactions, counterparty selection will be limited to the broker who presents the opportunity.

## 10. Client specific instructions

Where we are given a specific instruction from a client, we shall to the extent possible execute the order in accordance with that specific instruction. Our obligation of best execution will be satisfied by executing the order in accordance with the clients' specific instruction, to the extent of the specific instruction or instructions. It should be noted that any specific client instruction may prevent us from taking the steps needed to obtain the best

execution relating to the specific aspect of the order. For all other aspects of the order we will take all sufficient steps to obtain the best possible outcome for our clients.

### **11. Impact of legal documentation and counterparty restrictions on best execution**

A lack of appropriate legal documentation or other restrictions placed by clients on the counterparties with which LGIM is permitted to trade may impact multiple execution factors, including the best achievable price for the trade and the speed of execution. For these purposes, best execution is deemed to be the best trading result possible using the available counterparties.

### **12. Monitoring**

The LGIM Execution Oversight Committee (the 'committee') monitors the effectiveness of our execution arrangements on an on-going basis, and reviews our execution policy annually or when there is a material change. The committee has first line and second line representation, meets at least quarterly and covers all asset class trading conducted by the entities in scope for this policy.

LGIM undertakes regular Transaction Cost Analysis (TCA) to monitor the quality of execution. Depending on the instrument this may involve systematic comparisons of execution prices with respect to trading benchmarks, opening/closing prices, or periodic high/low/composite prices as appropriate. Along with our own in-house Trading Research team, we utilise a number of third-party providers to monitor the quality of our execution.

### **13. Commission sharing arrangements**

We do not utilise commission sharing accounts. All of our equity trading is executed at execution-only rates. We do not receive any remuneration, discount or non-monetary benefit for routing client orders to a particular trading venue or execution venue which would infringe the requirements on conflicts of interest or inducements.

### **14. Order handling**

- **Segregation of duties** – all trade execution is performed by the Global Trading team, which is staffed by experienced traders and not part of any portfolio management team, with the exception of our Money Market and Private Credit desks.
- **Order priority** – orders are instructed to the market in chronological order subject to market conditions or any other limitation, such as a price limit, or time specific instructions, associated with the order. Orders in the same security, with identical instructions may be aggregated if it is deemed appropriate. Further information on LGIM's order aggregation and allocation arrangements can be found in LGIM's Order Handling Policy.
- **Trade allocation** – orders are pre-allocated by fund managers when they are raised on the order management systems. Partially filled orders are automatically pro-rated by the system with consideration as to economic viability.
- **Order management and execution** – all orders are raised by fund managers on our order management systems which timestamp orders at different stages of the process, from origination to the ultimate booking of the trades. In addition, the systems maintain a full audit trail at all times.

### **15. Conflicts of interest**

- **Gifts and hospitality** – all employees are subject to the gifts and hospitality policy. Gifts and hospitality are monitored by the compliance department.

- **Dealing through associate companies** – we have dealing services arrangements in place with affiliated asset management companies in the US and Asia. No commission is charged to clients with the arrangement operating on a cost recovery basis between the firms.
- **Cross trading** – LGIM may periodically match contra flows in the same financial instrument where permitted. LGIM's Crossing Policy sets out further procedures governing this activity.
- **Personal account dealing** – all dealing in reportable securities must be pre-cleared by compliance with the exception of L&G Funds (except Fund Managers) and non-UCITS schemes which must be notified within five days. Employees are not permitted to trade in corporate bonds or financial spread bets.
- **Inducements** – LGIM may receive information and services from counterparties which enable enhancement of LGIM's execution capabilities, provided the information or services meet the FCA definition of acceptable minor non- monetary benefits.
- **Close links** – LGIM's Head of Trading is a Director and Board Member for The Plato Partnership. The Plato Partnership is a not-for-profit company comprising asset managers and broker dealers who are collaborating to bring creative solutions and efficiencies to today's complex equity market place. The Plato Partnership aims to develop and promote improved market structure and efficiency through collaborations with third parties, on its own and through the commissioning of academic research. Whilst those third parties include Trading Venues, the individual Plato member firms have no obligation to utilise those services. Additionally LGIM will only ever send orders to venues or exchanges where we can get the best possible outcome for our clients in line with our Execution Policy. Neither our Head of Trading nor LGIM receive any remuneration for their role with The Plato Partnership.

**Assessment of controls** – the compliance department independently monitors how the business complies with the requirements of all applicable regimes. The results of its reviews are reported to senior management and formal oversight committees. In addition, Legal & General internal audit provides a further independent review of the systems and controls in the investment management business.

## 16. Notification to client

We will notify our clients of any material changes to this policy. Our Execution Policy is available at any time on our website.

# Appendix I List of counterparties and execution venues

## Equities and related securities

- Auerbach Grayson & Co
- Bank of America Merrill Lynch
- Barclays
- BNP
- Citigroup
- Credit Suisse
- Credit Lyonnais
- Exane
- Goldman Sachs
- HSBC
- Instinet
- Investec Bank
- LGIM
- Liquidnet
- Jane Street
- JP Morgan
- Macquarie Bank
- Morgan Stanley
- Numis Securities
- Peel Hunt LLP
- Sanford Bernstein
- Societe Generale
- UBS
- Virtu ITG

## Fixed Income and related securities

- Bank of America Merrill Lynch
- Barclays
- BNP
- Citigroup

- Credit Suisse
- Deutsche Bank
- Goldman Sachs
- HSBC
- Jefferies
- JP Morgan
- LGIM
- Liquidnet
- MarketAxess
- Morgan Stanley
- Nomura
- Natwest
- RBC
- Tradeweb
- UBS
- Wells Fargo

**Over The Counter (OTC) Derivatives**

- Bank of America Merrill Lynch
- Barclays
- BNP
- Citigroup
- Credit Suisse
- Deutsche Bank
- Goldman Sachs
- HSBC
- JP Morgan
- Morgan Stanley
- Natwest
- Nomura
- RBC
- Societe Generale
- Tradeweb
- UBS

**Foreign Exchange**

- Bank of America Merrill Lynch
- Barclays
- BNP
- Citigroup
- Credit Suisse
- Deutsche Bank
- Goldman Sachs
- HSBC
- JP Morgan
- Morgan Stanley
- National Australia Bank
- Natwest
- RBC
- Refinitiv
- Societe Generale
- Standard Chartered
- UBS
- WestPac

**Money Market and Security Financing Transactions (SFTS)**

- Bank of America Merrill Lynch
- Bank of Tokyo Mitsubishi UFJ
- Barclays
- Citigroup
- Goldman Sachs
- HSBC
- ICAP Securities
- Lloyds Bank
- Morgan Stanley
- Natwest
- Rabobank
- RBC
- Tradition
- Tullett Prebon Securities
- UBS

## **Important information**

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Authorised and regulated by the Financial Conduct Authority.

Legal & General Investment Management does not provide advice on the suitability of its products or services.

Ultimate holding company - Legal & General Group plc.