

Annual report on quality of execution

Period 1 January 2017 - 31 December 2017

1. Analysis and conclusions drawn from execution monitoring

1.1 Introduction

According to Directive 2014/65/EU on Markets in Financial Instruments (MiFID II), investment firms shall publish per class of financial instrument the top 5 execution venues (or brokers where they placed orders for execution) in terms of trading volumes for all executed client orders in the previous year. Robeco has published these top 5 reports on its website (www.robeco.com/riam) in a machine-readable electronic format (csv file).

In addition, investment firms shall publish for each class of financial instruments, a summary of the analysis and conclusions they draw from their detailed monitoring of the quality of execution obtained. This document, which is available on the website as well, presents a combined analysis of execution obtained when placing orders with our execution brokers and when trading directly on venues.

1.2 Client categorization

Robeco's order execution policy applies to all of Robeco's clients, who have been categorized as professional clients. Robeco does not execute retail client orders. There is no differentiation in client treatment with regard to order execution arrangements.

1.3 Execution factors

When placing orders with brokers or using venues for the execution of trades which result from Robeco's investment decisions for clients, Robeco takes all sufficient steps to obtain the best possible result for its clients. The factors which are taken into account may include:

- Trade price or spread;
- Commission charged and other costs;
- Quality, speed and likelihood of execution and settlement;
- Order size;
- Nature of the order; and
- Any other consideration relevant to the execution of the order.

The relative importance of these factors are determined by considering matters including the characteristics of the order, the characteristics of the financial instruments that are subject to that order and the characteristics of counterparties and execution venues to which an order can be directed. Price and costs are generally of primary importance in obtaining best execution. However, other factors may gain importance, for example, when the size of a trade is large compared to the liquidity of the instrument, or where speed of execution becomes important for investment due to nature and size of the order or client cash flow requirements. In other words, well-informed trade execution decisions are made with the intention of maximizing the value of client portfolios.

Below we describe for each of the relevant asset classes the additional considerations with regard to the relative significance of the execution factors during the year 2017. During 2017 the importance of these factors did not change.

1.3.1 Equities, equity derivatives and exchange traded products

Equity orders are placed with brokers for execution. The liquidity of the share and the size of the order determine how the order is handled.

Liquid equities: low touch orders

For liquid equities, price, costs and trading impact were the most important factors to consider, seeking to obtain best execution.

Illiquid equities or large orders: high touch orders

Probability of execution and execution speed were important in case of illiquid equities or large orders. In case an order was illiquid or had high nominal value, or had high ADV, it required knowledge of the market and personal attention. Such trades were executed through High Touch execution, or through a (buy-side to buy-side) crossing network. Factors like the characteristics of the stock and its market-cap also played a role when selecting a broker.

1.3.2 Debt instruments, interest derivatives and credit derivatives (except futures)

These asset classes were executed on platforms. For these transactions, liquidity and price were basically the main determining factors given the nature of the securities, as well as the speed of market and size of the transaction.

Trades with limited size

In case liquidity was sufficient, orders were executed in competition, whereby brokers were requested for a quote (RFQ) on a platform. Prevailing execution dimension here were to obtain a price as close as possible to the mid-market level.

Complex trades of limited size

Complex trades of limited size usually include a component which makes valuation not available via broker screens and where pricing can vary more broadly amongst counterparties. For these types of trades Robeco periodically received information of its counterparties on how they price these more complex trades. This information was used for initial counterparty selection of which brokers should be put in competition for the trade.

Large transactions

Large (complex) transactions, which had a high likelihood of impacting the market due to their size, were generally not put in 'live' competition. Based on the information received by brokers and historic execution capabilities the best broker was selected to execute the order.

1.3.3 Interest derivatives (futures)

Orders in futures were transmitted to brokers. Interest futures tend to be traded on an electronic platform or via an algo. In case future contracts were rolled, the order was executed with the clearing brokers as this reduces costs (compared to executing with another broker and clearing with clearing broker).

1.3.4 Currency derivatives (forwards)

In general foreign exchange orders were executed in competition. These order were then executed by simultaneously requesting a price (RFQ) from several counterparties through the electronic platform FXall. Sometimes, the nature of a forex order justified the selection of just one counterparty – for example, in the case of currencies that are not traded on an electronic platform, for large orders that might have market impact when communicated to multiple counterparties, and for orders to be executed on a market fixing price.

Execution of 'restricted currencies' was done by the custodian. During 2017, Robeco monitored structurally that the custodian met Robeco's standards.

1.4 Close links, conflicts of interest, common ownership

Robeco does not have any close links, nor does it hold any common ownership with respect to any entity used to execute or place orders. Robeco does not have any qualified ownership over the entities used for any of the asset classes covered by this document. This allows for full flexibility to select trading partners on the basis of best execution.

Robeco's Conflicts of Interest Policy applies to any potential conflict of interest between Robeco and the execution venues and brokers used. In 2017 no conflicts of interest have been identified with respect to the venues and brokers used for any of the asset classes.

1.5 Specific arrangements (payments, discounts, etc.)

Fees, commissions and other monetary and non-monetary inducements (including discounts, rebates and gifts and entertainment) paid to or received from third parties are restricted by policies and procedures.

Robeco pays its brokers and execution venues a fee for the execution of orders. Under MiFID II, such a fee is an 'execution-only' fee, excluding a fee for other benefits or services, such as investment research. Charges related to the purchasing of investment research (or other services that are received in addition to execution services) are paid by Robeco directly out of its own resources. Robeco will only accept non-monetary benefits which they classify as 'minor', provided that such benefit is reasonable and proportionate, and of such a scale that it is unlikely to influence Robeco's behavior in a way that it is detrimental to the interest of its clients.

In 2017, before the MiFID II regime applied, Robeco made use of the services of third parties (including executing brokers) such as the receipt of research or corporate access services, without being required to make separate payments for these services. Before the end of 2017, Robeco adjusted its arrangements with third parties, so that all services that are received in addition to execution services are paid by Robeco from its own resources.

1.6 Changes regarding execution venues and brokers

It is Robeco's policy to maintain a choice of trading venues and brokers that offer the potential for Robeco to obtain the best possible result for the execution of orders on behalf of its clients on a consistent basis. A list of each of the execution venues and brokers that are used by Robeco is included in Robeco's order execution policy, which is updated at least on an annual basis.

During 2017, brokers and trading venues have been assessed regularly on criteria such as their reputation, execution price, liquidity, quality of execution (e.g. accurate and timely execution, potential to improve on price), superior services but also on the market conformity of their commission charges plus any other relevant criteria. Robeco has also monitored on a continuous basis whether the services of other brokers or trading venues would provide added value to Robeco and its clients. This led to several newly added entities to Robeco's approved broker list during 2017. The factors that have led to these changes are explained below.

In some markets, price volatility may mean that timeliness of execution is a priority. In markets that have low liquidity, the fact of execution may itself constitute best execution. In 2017 brokers have been added to the approved broker list, to ensure that Robeco is able to choose a broker in a certain market/region

with the potential to obtain the best possible result. In other cases, the choice of venue may be limited because of the nature of the order. For example, when financial instruments are more illiquid, there may be little or no choice of venue. Newly added brokers have been selected with care and Robeco ensures that their order execution policy complies with Robeco's best execution criteria, as outlined in its own order execution policy.

1.7 Data and tools relating to the quality of execution

Robeco has a monitoring program in place to test the effectiveness of its overall execution arrangements and to have oversight of its regulatory obligations on best execution. This monitoring program includes the ongoing monitoring of the quality of the price of execution of orders, based on its own transaction data and a transaction cost analysis tool (TCA) comparing the actual execution data with the adequate benchmark.

Under MiFID II, additional data will become available in 2018, enabling further analysis on the quality of execution obtained by trading venues and brokers. These data were not available for the monitoring of execution quality during 2017. From 2018 onwards, Robeco will incorporate such publications in the analysis of the performance of its brokers and trading venues.

An explanation of how we used the information of a provider of consolidated data tickers is irrelevant for 2017, as there are currently no registered consolidated tape providers.

1.8 Conclusions

During 2017, Robeco executed its best execution monitoring program and further enhanced its governance and oversight with respect to best execution in preparation for compliance with the MiFID II regime. The results of the various monitoring activities and any other issues with regard to the quality of the order execution process are discussed structurally and periodically. Where appropriate, improvements in respect of the order execution process have been identified and implemented. In 2017 these evaluations have not led to material changes to the execution arrangements that we have in place with execution venues and brokers, but more specifically to further clarify existing procedures, to strengthen controls and to identify points that need to be monitored further.