

As part of our commitment to ensuring the best possible result is achieved when executing trades or transmitting orders for execution to a third party on behalf of our clients, Franklin Templeton Investment Management Limited (FTIML) closely monitor the quality of our execution. This monitoring includes a *pre-execution* assessment of all relevant factors when determining the best way to execute a trade and a *post-execution* review of brokers, venues, and outcomes. Our post execution reviews allow us to assess the effectiveness of our current processes and enhance these processes wherever possible.

The below table provides additional guidance on the processes we have in place to ensure we have taken all sufficient steps in obtaining best execution.

Relative importance given to execution factors such as price, costs, and speed, when assessing the quality of execution

Equities, including Exchange Traded Products

When dealing in equities for which there are high levels of liquidity relative to our order size the total price and cost of the transaction, including the commission rate, has been the most important factor for assessing quality of execution¹. In circumstances where we have traded less liquid instruments, or we have a large order relative to traded volume, other factors will also form an important part of the trader's assessment. In these situations, while price and total cost are still extremely important, consideration will have been given to potential market impact, knowledge of and access to the contra side, likelihood of execution, and our trust in the ability of the broker to prevent information leakage.

FTIML is part of the wider Franklin Templeton group. As such we have access to internal trading desks based in the America's and Asia. For trades executed in these regions the orders will have been sent to our internal desks who then execute the trades in the relevant market using their local expertise. These desks follow the same relevant global policies as our European desk, have the same practices in place for assessing broker quality of service, and utilise the same tools for reviewing our performance in achieving best execution.

Debt Instruments, including bonds and money market instruments

When dealing in Fixed Income instruments for which there is good liquidity price has been the most important factor for assessing quality of execution. In circumstances where we have traded less liquid instruments, while price is still extremely important, likelihood of execution, and our trust in the ability of the broker to prevent information leakage has been considered. Responsiveness of brokers to requests for quotes is also important in our assessment of best execution.

¹ There may be limited exceptions to this when specific requirements have necessitated other considerations to take precedence. For example, in situations where a shorter than normal settlement period was needed to facilitate cash needs the ability of a broker to facilitate this becomes an important factor.

In respect of money market instruments, counterparty risk is a significant consideration along with the other factors noted above.

Derivatives & Structured Products

When dealing in derivatives price is an important consideration but there are often other factors which play an equally important role in assessing quality of execution. Client restrictions are commonplace, primarily because they may be set up to trade with a limited number of counterparties. Minimising counterparty risk via diversification and the ability of a counterparty to settle a trade are also key considerations.

Factors that led to a change in the list of execution venues listed in the firm's execution policy.

During 2018 there were some minor amendments to the execution venues listed in our execution policy for equity asset classes. The main factor driving additions to the venues listed has been the pursuit of liquidity, especially in more niche segments of the market such as small cap stocks and developing country exchanges. Where a broker has been identified who we feel can contribute to the firm achieving best execution the broker will have been assessed and added to our approved list after confirming that our standard criteria are met.

Our approved brokers list is regularly reviewed by our Global Trading Oversight Committee and brokers will be removed when appropriate e.g. if the broker has ceased to operate, or no longer offers a level of service we feel can contribute to us achieving best execution.

Use of Data and tools for monitoring of best execution²

Equity, including related derivatives, and exchange traded products

Real Time: Using a number of tools in our proprietary trading blotter and Execution Management System (EMS), we monitor several items. These will include performance statistics such as executed price vs. Volume Weighted Average Price, Participation Weighted Price and opening price, volume participation rates, venue and broker selection, order acceptance delays, and allocation overrides.

End of Day: Using tools on our proprietary trading blotter, we monitor commission rates in cents per share and basis points, as well as, overall commission levels. We also review the amount of broker capital used and reason code usage.

Post Trade: FTIML have utilised an independent Transaction Cost Analysis (TCA) provider to help us with our detailed monitoring of the quality of execution obtained. The system allows us to

² Trading at Franklin Templeton Investments is broadly broken out into either Fixed Income Trading or Equity Trading. Equity Trading consists of equities, exchange traded products, and derivatives used in relation to the management of our equity strategies, including currency derivatives used within these strategies. Fixed Income Trading consists of Bonds, Money Market Instruments, Structured Products, and derivatives used in relation to the management of our Fixed Income strategies, including currency derivatives used within these strategies.

analyze trade outliers and performance across trader, broker, market, portfolio manager, and client account at both the stock and order level. While the data can be helpful to evaluate any individual transaction, we believe the information is best used to identify longer-term trends and patterns.

In addition to TCA, our MIFID Best Execution Committee and our Global Best Execution Committee look at many different metrics relating to our trade data. For example, the committees will look at a breakdown of brokers used by trader, brokers used by trading desk, average commission rates, and performance of algorithms. Our trading team also undertake regular qualitative reviews of our top 20 brokers to assess areas such as quality of service and reliability.

Fixed Income, including related derivatives

Pre Trade: When trading in the secondary market, our traders have generally made enquiries for a number of different quotes on each instrument traded. Knowledge and experience of the markets has been used to inform the traders decision on where to seek quotes and for less liquid markets likelihood of execution along with other qualitative elements have been considered.

Post Trade: FTIML have utilised an independent Transaction Cost Analysis (TCA) provider to help us with our detailed monitoring of the quality of execution obtained. The system allows us to identify trade outliers which are further researched by our Investment Compliance and Trading teams taking into account prevailing markets conditions, market structure, and supplemental market data.

In addition to TCA, our MIFID Best Execution Committee and our Fixed Income Global Trading Oversight Committee (GTOC) meet regularly to review a number of different metrics. For example, the committee review our use of brokers as a percentage of dollars traded, as a percentage of total trades, and percentage of trades versus the brokers market share for that instrument type.

Consolidated Tape Providers

FTIML has not employed the use of any consolidated tape providers.

FTIML does not trade with any affiliated entities, nor do we receive payments, discounts, rebates, or non-monetary benefits linked to our trading arrangements. Currently, the firm does not have any retail clients. Where this to change in the future we would note we have policies in place to ensure all our clients are treated in a fair and equitable manner and we would not treat clients differently based on their categorisation or other factors.

Conclusion

Based on our analysis and review of the processes detailed above it is our belief that we have obtained best execution for our clients. We continue to review our execution quality and will take action to improve our processes should we see developments in technology, increases in market transparency, or opportunities to reduce implicit and explicit costs.

Important Information

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