

MiFID II Top Five Venue Reporting Commentary

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Introduction

The Markets in Financial Instruments Directive (MiFID II) requires investment firms to summarise and make public, on an annual basis, the top five execution venues used (brokers or counterparties) in relation to the volume of trades placed across a range of financial instruments.

Investment firms are required to publish this summary both for trades they have executed themselves, and for trades they have placed with other firms for execution.

Generally, HSBC Alternative Investments Ltd. (HAIL) executes or places trades in the following MiFID II Financial Instruments in respect of its hedge fund services:

- ◆ collective investment schemes “Funds”; and
- ◆ foreign exchange “FX” forward transactions

For the private equity and real estate services, HAIL does not execute or place orders for collective investment schemes or FX transactions. This is done by the recipient of the HAIL services (“the Client”) or another third party.

There is an associated document entitled “MiFID II Top 5 Venue Reporting Table” which contains detailed analysis by instrument type.

Requirement of the Directive

Article 3 (3): 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 on the execution venues where they executed all client orders in the previous year.

The information shall include:

- a. **an explanation of the relative importance the firm gave to the execution factors of price, costs, speed, likelihood of execution or any other consideration including qualitative factors when assessing the quality of execution;**

Collective Investment Schemes - HAIL places orders with collective investment schemes where price is determined as per the scheme’s dealing calendar which maybe daily, weekly, monthly or quarterly. The price of units and shares in collective investment schemes will usually be determined by the Net Asset Value (“NAV”) that is the value of assets within target portfolio fund divided by the number of shares or units that have been issued to investors.

Where holdings in target portfolio funds are bought and sold at the prevailing NAV, dealing will be usually instructed by way of a subscription or redemption form via the custodian or sub-custodian.

Such orders may only be placed with a Fund’s appointed transfer agent before a specified time (‘cut off time’) at which the price is calculated. HAIL seeks to place the order with the transfer agent before the cut-off time.

Forward Foreign exchange – FX activity is outsourced to State Street. HAIL has oversight of this process and State Street have in place best execution processes.

- b. **a description of any close links, conflicts of interests, and common ownerships with respect to any execution venues used to execute orders;**

Where HAIL executes orders with any affiliated collective investment scheme, the order would be executed at the NAV of the fund in line with all other collective investment scheme orders.

- c. **a description of any specific arrangements with any execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received;**

HAIL has no specific arrangements with any execution venues regarding payments made or received, discounts, rebates or non-monetary benefits.

d. an explanation of the factors that led to a change in the list of execution venues listed in the firm's execution policy, if such a change occurred;

The top five execution venues are the result of the aggregated orders placed with the individual collective investment schemes which is determined by the investment process. HAIL conducts both operational and investment due diligence on all proposed investments in collective investment schemes. A list of approved collective investment schemes is produced based on that due diligence and is subject to an ongoing review and monitoring process, which will lead to collective investment schemes being deleted and added on a periodic basis.

e. an explanation of how order execution differs according to client categorisation, where the firm treats categories of clients differently and where it may affect the order execution arrangements;

All HAIL customers are categorised as Professional, and all orders are treated equally.

f. an explanation of whether other criteria were given precedence over immediate price and cost when executing retail client orders and how these other criteria were instrumental in delivering the best possible result in terms of the total consideration to the client;

Not applicable. HAIL does not trade retail client orders.

g. an explanation of how the investment firm has used any data or tools relating to the quality of execution, including any data published under Delegated Regulation (EU) 2017/575 [RTS 27];

HAIL does not use any such data or tools as orders are placed at the NAV of the collective investment schemes. HAIL utilises benchmarking tools to monitor the FX forward trades that are entered into by its delegated currency manager "State Street",

h. where applicable, an explanation of how the investment firm has used output of a consolidated tape provider

Not applicable. There are currently no consolidated tape providers in Europe.

The data above is based on execution data in the period from 1st January 2020 to 31st December 2020 inclusive.

The disclosure of information on execution venue selection (also known as RTS 28 disclosure) for HSBC Alternative Investments Ltd. on this website, www.assetmanagement.hsbc.co.uk (the 'Site'), is subject to the following: HSBC Alternative Investments Ltd. provides the data on this Site in order to meet its regulatory requirements, which require this data to be made available to the public. HSBC Alternative Investments Ltd. does not permit any third party to sell the data published on this Site without prior agreement.