

Mercer Global Investments Europe Limited – 2019 MiFID II Order Execution Report

Mercer Global Investments Europe Limited (MGIE) is authorised by the Central Bank of Ireland pursuant to the European Union (Markets in Financial Instruments) Regulations 2017 (the “MiFID II Regulations”), as a MiFID Investment Firm. The MiFID Regulations give effect to Directive 2014/65/EU (“MiFID II”) and Commission Delegated Directive (EU) 2017/593 (“Commission Delegated Directive”) in Ireland. Commission Delegated Regulation 2017/565 (“Commission Delegated Regulation”) also includes requirements for investment firms relating to order execution, execution policies and disclosures. The MGIE Order Execution Policy can be found at - <https://www.delegated-solutions.mercer.com/corporate-policies.html>.

MGIE is authorised to provide the investment services of investment advice, receipt and transmission of orders and portfolio management. MGIE only provides investment services to clients classified as Professional Clients under MiFID II.

Top 5 Disclosure Requirements

Under MiFID II, investment firms are required to make disclosure on an annual basis as follows:

Top Five Execution Venues: under Article 27(6) of MiFID II, a firm which directly executes client orders must summarise and make public on an annual basis, for each class of financial instruments, the top five execution venues in terms of trading volumes, where it executed client orders in the preceding year, together with information on the quality of execution obtained.

Passing orders to another firm for execution (indirect execution): under Article 65(6) of the Commission Delegated Regulation, portfolio managers placing orders with other entities for execution, and firms providing the service of reception and transmission of orders, are subject to an equivalent rule. In particular, when a firm selects other firms to provide order execution services, it shall summarise and make public, on an annual basis, for each class of financial instruments, the top five investment firms in terms of trading volumes where it transmitted or placed client orders for execution in the preceding year and information on the quality of execution obtained.

RTS 28 sets out the technical standards for the Top 5 Disclosure Requirements and applies equally to firms that fall within the Article 27(6) regime and Article 65(6) regime. For the purpose of the Top 5 Disclosure Requirements, an execution venue is any one of the following: a regulated market; a Multilateral Trading Facility; an Organised Trading Facility; a Systematic Internaliser; a market maker

or other liquidity provider; an entity that performs a similar function in a third country to the functions performed by the above entities.

Top 5 Execution Venues

MGIE is not authorised for the provision of the investment service of execution of client orders. MGIE provides investment advice, portfolio management and receipt and transmission of orders to its clients. MGIE clients invest in regulated collective investment schemes, most of which are the Mercer Funds for which State Street Fund Services (Ireland) Limited acts as the administrator and transfer agent. MGIE clients also invest, to a limited extent, in external collective investment schemes. All trades are executed through the fund administrator of the relevant fund and traded at the net asset value of the fund. While such trades are out of scope for MiFID II best execution obligations and fund administrators are not considered execution venues under MiFID II, for full transparency, the following is a summary of the top fund administrators used:

Class of Financial Instrument – Collective Investment Schemes

Top five execution venues ranked in terms of trading volumes (descending order)	% of client orders	Number of Client orders	% of trades that were Passive (sells)	% of trades that were aggressive (buys)
State Street Fund Services (Ireland) Limited	99%	42,014	45.79%	54.21%
Northern Trust International Fund Administration Services (Ireland) Limited	<1%	67	34.33%	65.67%
JP Morgan	<1%	52	57.69%	42.31%

RTS 28 also requires information on the percentage of orders where a specific execution venue was specified by the client prior to the execution of the order (“Directed orders”) however this is not relevant for MGIE trades as all were executed via the transfer agent of the collective investment scheme.

MGIE confirms that with the exception of trades in collective investment schemes as set out above, it has executed an average of less than one trade per business day in the previous year in all other classes of financial instruments.

MGIE is also required to publish for each class of financial instruments, a summary of the analysis and conclusions drawn from detailed monitoring of the quality of execution obtained on the execution venues where they executed all client orders in the previous year. However, since all trades executed by MGIE were via the transfer agent of the collective investment scheme rather than on an execution venue as described in MiFID, this is not relevant.

Top Five Investment Firms where orders were transmitted or placed for execution

Investment firms which select other firms to provide order execution services, are required to summarise and make public, on an annual basis, for each class of financial instruments, the top five investment firms in terms of trading volumes where it transmitted or placed client orders for execution in the preceding year and information on the quality of execution obtained. As set out in the MGIE Order Execution Policy, as part of the investment management service MGIE provides to a range of Mercer and non-Mercer Funds, Mercer does not execute or transmit orders itself. Instead, MGIE selects and appoints highly rated sub-Investment managers from around the World to manage segments of the Funds.

For full transparency, the below table provides a breakdown of the top five sub-investment managers chosen by MGIE.

Top five investment firms ranked in terms of trading volumes (descending order)	% of client orders	Number of Client orders	% of trades that were Passive (sells)	% of trades that were aggressive (buys)
Legal & General Investment Management Limited	17.29%	782	48.72%	51.28%
Irish Life Investment Managers Limited	17.00%	769	48.89%	51.11%

Blackrock Investment Management (UK) Limited	13.20%	597	54.61%	45.39%
UBS	5.95%	269	31.23%	68.77%
Wellington	3.96%	179	50.84%	49.16%

In practice, MGIE delegates the discretionary investment management for these funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-Fund or certain segments of a sub-Fund.

The funds managed by MGIE invest in the full spectrum of asset classes. Discretionary management of the sub-Funds is delegated to sub-Investment Managers who are contractually obliged to comply with the MiFID requirements when managing the fund or portion of the fund allocated to them. Each sub-Investment Manager is, prior to appointment, subjected to a rigorous due diligence process which includes obtaining a copy of such sub-Investment Manager's own Best Execution Policy to ensure it has arrangements in place to ensure it takes all sufficient steps to achieve the best results for clients.

MGIE also requires that all sub-investment managers are subject to an Operational Risk Assessment ("ORA") carried out by Mercer Sentinel before being appointed. This ORA process includes, inter alia, a review of the execution arrangements in place to ensure sub-investment managers take all sufficient steps to obtain the best results for the Mercer Funds. As part of Sentinel's standard framework, the assessment includes a review of each Managers processes and controls around pre-trade compliance, trade execution and post trade processes, including trade error policies, best execution and transaction cost analysis (TCA) and allocation procedures. The process continuously evolves depending on the latest regulatory and industry trends. As well as an initial review, once on-boarded, Sentinel conducts reviews on all sub-investment managers on a rolling three-year cycle.