

# Vanguard Asset Management – Top Five Venue Report

## 1 Introduction

To enable the public and investors to evaluate the quality of Vanguard Asset Management (“VAM”) execution practices, top five execution venues by asset class for all client orders will be disclosed on an annual basis. VAM will also include a summary of the analysis and conclusions drawn from best execution monitoring.

Upon review, all venues were deemed to have satisfactorily fulfilled all requirements as defined by the prioritized factors and characteristics of the order and no material changes were made to our list of approved execution venues and brokers.

## 2 Scope

This document covers client trading activity for VAM for the period of 1st January 2018 to 31st December 2018.

## 3 Considerations

### *a. Explanation of the relative importance the firm gave to the execution factors.*

Vanguard is committed to take all sufficient steps to obtain the best possible execution result for its clients on a consistent basis, taking into account a range of execution factors including but not limited to:

- Price
- Costs
- Timing and speed of execution
- Likelihood of execution, clearance and settlement
- Size of order

- Liquidity
- Nature of order
- Nature of instrument
- Market impact
- Information leakage
- Other appropriate factors

### *b. Description of any close links, conflicts of interest, and common ownerships with respect to any trading venues used.*

VAM has no direct common ownership with any trading venues that it utilises. VAM in its capacity as investment adviser and agent to certain funds may from time to time instruct the transaction in financial instruments of the trading venues it utilizes.

Vanguard may have strategic relationships with certain trading venues for the development of electronic trading capabilities. Such arrangements have the purpose of providing lower-cost or more standardized trading or post trade services, or to increase access to liquidity, scalability and reduce risk. A conflict of interest may arise to the extent that Vanguard chooses to direct clients’ orders to such venues in circumstances when this may be detrimental to its clients’ interests. Vanguard mitigates this conflict by following its Best Execution Policy, including primary focus on appropriate venue selection based upon execution factors.

### **MarketAxess**

Vanguard has a strategic relationship with MarketAxess to develop electronic trading in fixed income markets. The two firms exchange ideas at times on product developments that could promote market transparency. Vanguard utilises TRAX, a wholly owned subsidiary of MarketAxess focusing on data and reporting, as its Approved Publication Arrangement provider to meet its post-trade reporting requirements under MiFID II.

## TradeWeb

Vanguard has a strategic relationship with Tradeweb to develop electronic trading capabilities in global rates and derivatives products. Tradeweb operates electronic over the counter marketplaces serving a variety of institutions including banks, asset managers, central banks, pension funds, and insurance companies. The firms focus on applying technology to drive greater efficiency and minimizing transaction costs in fixed income and derivatives products.

## FX-Connect MTF

Vanguard has a strategic relationship with FX Connect to develop certain FX capabilities such as FX spot, forwards, swaps, and NDFs. FX-Connect is a market-leading FX execution venue that helps institutional clients efficiently manage multiple portfolios, connect with counterparties and streamline global trading operations.

## Bloomberg MTF

Vanguard has a strategic relationship with Bloomberg MTF to develop certain electronic trading capabilities in the fixed income market, such as cash bonds, credit, rates and CDS. Bloomberg's MTF provides eligible participants access to request for quote and request for trade functionality and liquidity across the Fixed Income asset class. Bloomberg is a robust trading platform for trading cash bonds, repos, credit default swaps ("CDS"), interest rate swaps ("IRS"), exchange-traded funds ("ETF"), equity derivatives and foreign exchange derivatives ("FX").

Bloomberg's solutions are integrated into one seamless workflow and are suitable for clients on the buy-side and sell-side

Any transactions undertaken will be subject at all times to compliance with the COLL Sourcebook, any COBS requirements and listing requirements, the investment objectives of relevant fund and VAM's internal conflicts of interest policy.

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

VAM as an FCA regulated MiFID Investment Firm, employs strict oversight of its execution venue relationships to ensure that all payments made, and benefits received, are in full compliance with inducement rules within MiFID II. VAM has a designated list of research providers to whom it pays for research (which is ring-fenced from Vanguard's global investment operations) under separately agreed contractual arrangements that are reviewed on an annual basis. Any payment made by VAM is debited from its own

P&L. In addition VAM has entered into separate contractual arrangements with execution venue providers in respect of the provision of certain execution management systems. VAM has various internal policies in relation to gifts and entertainment, research as well as minor non-monetary benefits and the consumption and recording thereof, which is fully compliant with COBS. Finally, VAM undertakes periodic reviews of all its execution venues and its payment for the services provided by them in accordance with its internal inducement policies to ensure continuing compliance with regulation.

*d. Explanation of factors that led to a change in the list of execution venues listed in the firm's execution policy.*

VAM has not changed any of its execution factors as described in Best Execution Policy for the period. The firm will monitor all of the factors as prescribed in section 3(a) and any one or more changes to these factors could lead to a change in the firm's execution venues.

*e. Explanation of how order execution differs according to client categorization.*

Whilst retail clients invest directly in the Vanguard funds, VAM's clients are the Funds themselves, not the underlying beneficiaries. All funds are classified as professional clients for the purpose of the regulation and therefore they do not benefit from the higher level of customer protection afforded to retail clients.

*f. Explanation of whether other criteria were given precedence over immediate price and cost when executing retail client orders.*

VAM does not execute retail client orders.

*g. Explanation of how the investment firm has used any data or tools relating to the quality of execution.*

Best execution monitoring is conducted by the VAM dealers, the VAM risk team and VAM compliance. This includes pre and post-trade monitoring. Our OMS platforms (across our asset classes) collect comprehensive price levels from broker-dealers, both indicative and traded, or data feeds from third party providers as well as data from electronic exchanges. On a post-trade basis, a range of tools are used (including Bloomberg TCA ("BTCA")) to monitor trades executed and to highlight any instances which may warrant further investigation. This supplements the data / tools used on a pre-trade basis across VAM's front office.

*h. Explanation of how the investment firm has used output of a consolidated tape provider.*

There is currently no consolidated tape under MiFID II. When available VAM will seek to use this to enhance existing best execution monitoring.