



ETHENEA

# Best Execution Policy

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ETHENEA Independent Investors S.A.

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## 1 Short description

This Policy sets out the Company's order execution principles and is intended to protect investors and create a uniform and binding regulation with regard to relevant legal and regulatory requirements in order to ensure and improve investor protection, increase market efficiency, and undertake all reasonable steps to achieve the best possible results in the interests of the Funds and its investors when handling and executing orders for trades in financial instruments.

This Policy concerns ETHENEA Independent Investors S.A. ("ETHENEA"), a UCITS fund management company duly authorized by the Luxembourg regulator of the financial sector CSSF (Commission de Surveillance du Secteur Financier) to manage investment funds qualifying as UCITS pursuant to Art. 111, chapter 2 of the Law of December 17th 2010 relating to undertakings for collective investment. Consequently, ETHENEA is not subject to MiFID rules.

## 2 Legal background

Each employee (hereinafter the "Employee") is requested and required to comply with this Policy in full in the course of Company business.

This Policy is compliant with European UCITS legislation and domestic legislation, and serves to implement CSSF circulars and regulations: in particular, Art. 111 of the Law of December 17th 2010 on undertakings for collective investment and Art. 24ff., and in particular Art. 28f., of CSSF Regulation 10-4 of December 24th 2010.

In addition, the following regulations and laws are taken into account with this policy:

- AIFM Directive 2011/61/EU
- Directive 2014/65/EU (MiFID II)
- Law of 12.th July 2013
- Special Funds Law of February 2017
- UCITS IV Directive
- UCITS V Directive

## 3 Internal principles

As part of the obligation to protect investors and safeguard their interests, the Company has put in place appropriate measures to consistently secure the best possible outcome for investors when executing investment decisions – i.e. orders to buy and sell authorized assets - under normal business conditions ("best execution"), taking into account price, costs, and execution speed and quality in particular.



The following factors, in particular, play a role in the best execution of investment decisions:

- the price of the assets being purchased
- the cost of executing the order
- the speed with which the order can be executed
- the likelihood that the order can be executed or settled
- the security of the order execution or settlement process
- the order size and type
- other aspects relevant to order execution

The relative importance of these factors is determined based on the objectives, investment policy, and specific risks of the Fund as described in the prospectus, investment rules or articles of association.

The goal is the best execution of the Company's investment decisions as it acts on behalf and for the account of the funds it manages. When executing orders, and in the absence of specific instructions from the Portfolio Manager, ETHENEA considers the following main criteria in descending order of importance:

1. the price of the assets
2. the cost and speed of order execution
3. the likelihood of order execution

ETHENEA compiles a list of eligible counterparties and executing brokers that is subject to review at least once annually. The Head of Execution is responsible for preparing and maintaining this list, and updating it where necessary.

Where portfolio management has been outsourced to third parties, they are contractually obliged to fully apply the Company's standards in an equivalent manner. In such cases, ETHENEA ensures third-party compliance with the relevant provisions either (i) by selecting EU domiciled companies subject to supervision and conducting periodic spot checks or (ii) by conducting an initial screening of any non- EU domiciled third parties, followed by regular, systematic monitoring and checks.

The Funds are authorized to acquire the following financial instruments and assets in particular:

- securities
- money market instruments
- structured financial instruments
- investment fund units/shares
- exchange-traded derivatives
- forward rate agreements and all other OTC
- alternative investments, provided they are tradeable assets
- other authorized, tradeable assets in UCIs/UCITS



Commodity spot trades or derivatives with physical delivery thereof in particular are not authorized.

## 4 Responsibilities

The definition of roles should ensure that responsibilities are clearly defined. In the present Policy, the following roles were identified and defined:

**Policy Owner:** The person who has the ultimate responsibility for the proper execution and implementation of the Policy and its compliance with all relevant internal and external rules and regulations. The Policy Owner is also in charge of keeping the Policy up-to-date and making changes where and whenever necessary. In addition, he is the prime contact for any questions or requests.

**Portfolio Management:** The department in charge of managing the portfolios of the Funds the Company has under its management. One part of this division (PM Execution Team) and its members is exclusively dedicated to the execution of all trades.

The Portfolio Managers have no authorization to negotiate or trade.

**Management:** The Management in charge of the Company. They assume overall responsibility for day-to-day management under the supervision and control of the Board of Directors.

Sourcing, price discovery, negotiation and trading is under the complete responsibility and discretion of the PM Execution Team. To achieve the best possible outcome for our investors, the PMs are not supposed to communicate any trade relevant parameters externally, as are i.e. price and size. Any of those Position / Portfolio relevant parameters are considered “internal information”.

## 5 External systems and interfaces

The execution of transactions and related reporting is performed by a Bloomberg tool.

### **Trading Tools/Systems:**

Bloomberg	EMSX (Shares, Listed Futures and Options)
Bloomberg	TSOX (Bonds)
Bloomberg	FXGO (Foreign Exchange)
Bloomberg	BBX (Bond Crossing Network)
Bloomberg	MTF (Multilateral Trading Facility)
Bloomberg	RFQ (Request for Quote)
Market Axess	(Alternative Bond Crossing Network)



## **Business Tools:**

Other interfaces are also in use, including amongst others, Bloomberg BTCA (Bloomberg Trading Cost Analysis), Morgan Stanley Matrix, OPUS (Patronas OPUS), as well as other research-based portals.

## 6 Scope

This Policy mainly focuses on the trading activities within the Company's Portfolio Management department and delegated parties but, in principle, applies to the Company in its entirety and its subsidiaries and branches to the extent in which they are involved in portfolio management and/or execution of trades.

## 7 Process description

The Company will carefully consider the following processes and criteria in its decision-making; use the technology, resources and information channels at its disposal; and regularly check and monitor the overall quality of order execution. The Policy Owner is responsible for the definition and implementation of the checking and monitoring methods.

The Company applies the following principles in the execution of buy and sell orders for financial instruments and other authorized assets, unless otherwise agreed in writing.

### 7.1 Decision-making process and criteria

ETHENEA adopts different execution strategies depending on the asset class and market being traded.

#### **Equities – Cash products (shares, funds, ETFs, etc.)**

ETHENEA executes transactions on directly accessed markets, as well as executing with/through approved brokers. The decision as to an appropriate execution venue is undertaken on a trade by trade basis, and depends on the reason for the trade, the size of the order, the percentage of average daily volume that the trade represents, the available liquidity in the stock at the time, as well as any other execution factors deemed relevant by ETHENEA traders. ETHENEA may utilize algorithms, where appropriate, depending on the nature of the trade.

For smaller orders, price is the primary execution factor when choosing the appropriate venue, as the markets are generally transparent and liquid, with costs being the second key factor. For larger orders, price is still the primary execution factor, but liquidity, likelihood of execution, reduction of market impact, and speed of execution have greater importance. These execution factors will often drive the traders' decisions regarding whether to pass the order to a broker or to execute directly with a particular execution venue.

Where the order is to be passed to a broker for execution, ETHENEA will select a broker (from those that have been approved) based primarily upon price, but also taking into account



the following factors: liquidity capability, clearance and settlement capabilities, quality of service, access to markets, credit worthiness, and financial stability. To ensure quick executions and minimum market impact, such orders may be split among multiple brokers/venues.

## **Exchange-Traded Derivatives – equities and fixed income (futures, options, etc.)**

ETHENEA transacts in exchange-traded derivative instruments to hedge against market risk and to gain exposure to underlying assets. In the majority of cases, listed derivatives are not fungible, and ETHENEA's choice of Execution Venue may, as a result, be limited. The decision to deal on a particular exchange may therefore be based primarily on the fact that there are no alternative venues to deal in these products.

Where there is a choice of Execution Venue, price remains the primary factor. However, ETHENEA will, unless market conditions dictate otherwise, also consider time of execution, costs, order size, and likelihood of execution as important execution factors.

## **OTC derivatives – equities and fixed income (SWAPS, options, Contracts For Difference, etc.)**

There are no formalized markets and, in most cases, no standard settlement infrastructure for OTC derivative transactions. Dealing in OTC derivatives is limited to pre-authorized brokers with whom legal and ISDA agreements are in place. These include agreements to facilitate settlement ('give-up agreements') for certain centrally cleared derivative contracts and, in such cases, for perceived operational efficiency.

The best possible outcome for the Fund and its investors is not determined exclusively by the price and cost of a trade. A number of factors and criteria must be considered. These factors and criteria may vary by financial instrument/authorized asset and the specific order.

The following factors are those the Company considers to be generally significant in making decisions about the execution of an order:

### **a) Price and costs**

The Company strives to achieve price and cost efficiency for trades by channelling orders through execution venues which, in its assessment, offer more attractive prices and/or costs than the market average. Historically, this has usually been the domestic exchange for a security, or the most liquid market for that security (where different).

### **b) Speed and security of order execution**

The speed and security of order execution are especially important for volatile and unregulated ("over-the-counter" or "OTC") markets. The Company uses all of the means and resources at its disposal to ensure that orders are executed as quickly and reliably as possible.

In times of unusual market conditions, which are often characterized by high trading volumes and volatility, the Company strives to achieve the same best possible result when executing the order as under normal market conditions, using the available means and resources and applying the principles set out above. However, such circumstances may temporarily render



other factors and criteria central to the decision-making process for the orders concerned in order to ultimately protect investor interests. The Company documents the execution of OTC transactions for audit purposes.

### **c) Overall quality of order execution**

The Company has extensive experience with various markets, market makers, and digital communications networks and trading platforms. On the basis of this experience, and with the goal of achieving quick and reliable order execution, the Company uses its best judgement to decide how and where an order should be executed or to select an intermediary to which it should be transferred.

The Company uses existing electronic systems and telecommunications systems to transmit and execute orders. Orders are sent directly to the execution venue or to the intermediary offering the best execution in the Company's view.

If there is any reason to require the careful handling of an order, the execution can be transferred to one or more market makers.

The Company regularly monitors other potential execution venues and can channel on-exchange or over-the-counter (OTC) trades through those execution venues it assumes comply with its best execution principles.

### **d) Likelihood of execution and settlement, order size, and conditions**

Different modes of order execution may be used to limit risk, especially when trading on volatile markets.

For a "limit order", a maximum purchase price or minimum sale price is set for the trade. Where the market does not allow for the execution of an order at the set price limit, the order cannot be executed until the market price has returned to the limit. Thus, the order may not be executed at all.

Best execution requires that the trading partner receives a formal instruction from the Company for every order placed by it in order to obtain the best possible results. The Company must have an audit trail for the execution of the order.

At its discretion, the Company may also consider other factors ad hoc that it deems permissible in the protection of investor interests.

## **7.2 Selection of Execution Venue and Intermediary**

The Company is contractually obliged to select only those trading partners and exchanges whose trading model and execution practices enable it to achieve the best possible outcome for the orders placed on behalf of the funds and investors.

The Company must ensure that all trading partners and exchanges have comparable best execution principles, guidelines and policies. ETHENEA has drawn up a list of suitable and approved trading partners / counterparties. This list of suitable and approved trading partners and exchanges is amended as required.





Where multiple suitable trading partners or exchanges are available, the Company selects the one offering the best terms for the trade in question, so as to comply with the principles defined herein and its obligation to act solely in the best interests of its investors and the Funds it manages.

## **Examples showing possible order execution for the following assets:**

### **a) Equities/derivatives listed on a German exchange (German and non-German issuers)**

Equities/derivatives from German and non-German issuers that are listed on a German exchange are typically traded on a German exchange. To determine the best execution venue for securities that are listed on more than one German exchange, the Company primarily compares the price secured for the trade and the cost of executing it. If multiple execution venues offer comparable order execution quality, the Company will consider other factors such as the speed and likelihood of execution and settlement, at its discretion, in reaching a decision.

### **b) Equities/derivatives not listed on a German exchange**

To determine the best execution venue for securities that are not listed on a German exchange, the Company considers the speed and likelihood of order execution and settlement in addition to the price and cost of the trade. Historically, the best results for the interests of the investors and the UCI under management are achieved on a domestic exchange for the security or, in the case of derivatives, on the sole execution venue for trading the derivative.

### **c) Fund units/shares**

Orders to buy and sell units in investment funds are sent to the transfer agent of the investment company, either directly or indirectly through a fund platform, broker or by other means. These orders are executed at the relevant net asset value (subscription and redemption price).

### **d) OTC trading**

#### **(1) Bonds/money market instruments**

As a significant proportion of bonds/money market instruments is traded over the counter, and as exchanges are generally still unable to offer order execution at the best possible price, the Company acts as a counterparty offering the best possible price based on the offers by the market makers accessible to it. This information is obtained on digital platforms (e.g. Bloomberg) or by telephone. If the Company cannot find a party to execute the trade, it contacts the issuer of the security in order to be able to propose a price to the client.

#### **(2) Derivatives**

For derivatives not listed on a regulated market, the Company acts as a counterparty offering the best possible price based on the offers by the market makers accessible to it and its own position.



### (3) Structured products

For structured products, the Company acts as a counterparty offering the best possible price based on the offers by the product issuers accessible to it, which will depend on the terms of the structured products in question. This information is obtained on digital platforms (e.g. Bloomberg) or by telephone.

### (4) Foreign exchange products

The Company acts as a counterparty offering conditions for order execution in line with the market conditions at the time the order is executed.

As a rule, the Company works with brokers/intermediaries that have many years of experience and extensive technical knowledge of the relevant asset and execution venue.

If multiple brokers/intermediaries present themselves after consideration of the aforementioned criteria, the Company will bring additional factors into the decision-making process (e.g. whether it has a successful long-term business relationship with the intermediary) to obtain the best possible results for investors and the UCIs it manages.

## 7.3 Exclusion of pre-defined priority or weighting of criteria

The best execution obligation encompasses not only the price secured for a trade, but also other criteria such as the cost, speed and likelihood with which it will be executed, as well as various other factors that enter into decisions on order execution.

Failure to secure the best possible price in the execution of an order does not necessarily entail a breach of this statutory requirement. In such cases, the choice of execution has been based on other factors and criteria.

The result of a combination of a range of factors and criteria is ultimately central to the decision on order execution.

## 7.4 Order execution

The Company ensures the immediate and fair execution of orders for the Funds it manages. The order and settlement channels are determined as soon as possible to guarantee that orders for execution are recorded and allocated correctly and without delay.

Following the requisite evaluation, orders from outsourcing partners (i.e. where portfolio management has been delegated to authorized portfolio managers) are transferred to the relevant trading partner without delay. The trade confirmations are forwarded without delay following receipt to the custodian bank of the UCI/UCITS and other parties involved.

Order execution must also take into account all relevant MiFID provisions, including the relevant provisions on transparency of internal decision-making and consideration of relevant factors and documentation insofar as these are relevant for ETHENEA or its brokers and/or counterparties.



## 7.5 Aggregation and allocation of orders

The Company does not generally aggregate and jointly execute orders for one Fund with those for a different Fund or with an order for its own account (proprietary trading), unless such aggregation results in no disadvantage for any Fund or investor.

If aggregation results in partial order execution, the following procedures apply:

a) Aggregated orders for multiple Funds

Based on the aggregated order, the order for each individual Fund is executed pro rata or according to a pre-specified ratio.

b) Aggregated orders with proprietary trades

The Company ensures that the aggregated order does not result in a disadvantage for the Funds. In the event of partial order execution, orders within the aggregated order in favour of the Funds are processed and executed before proprietary trades of the Company.

## 7.6 Technical issues and forces majeure

In rare instances that are not part of normal business operations, especially due to the failure of a technical system or in the event of force majeure, the Company may be forced to execute an order in a manner divergent from the principles described herein. However, the effect of the order execution must serve the interests of investors. Even in the event of difficult or unusual circumstances or in special cases, the Company will strive to execute orders as consistently as possible and under the best possible conditions as opportunity permits and using the resources at its disposal.

## 7.7 Ongoing monitoring of internal guidelines

The Company will continually monitor the efficacy of its procedures for order execution and its Best Execution Policy in order to identify and amend any shortcomings.

At least once annually it will assess whether the principles described in the Policy usually obtain the best possible results for the Funds it manages, or whether the measures taken with regard to order execution need to be adjusted or changed.

Additional reviews of the Policy will be performed, in particular, where use of the execution venues and intermediaries indicated in the guidelines can no longer generally guarantee the best execution of client orders due to a significant change in the market environment, or where other circumstances change such that the principles of this Policy can no longer sufficiently guarantee best execution.

Compliance with the principles and rules is subject to regular monitoring and checks. Periodic checks are performed at least once annually. The date for these annual checks is set by the Compliance department. A report on the results of the checks is produced and notified to the Policy Owner and Management. These checks are to be performed in the second half of each calendar year.



## 7.8 Reporting of events and issues in breach of the principles or rules in the policy

Employees are requested to immediately report events and issues that constitute a breach of the principles or rules contained in the Policy to the responsible party and the Policy Owner. Employees may also report such issues to Compliance and/or Risk Management. Failure to comply with this Policy and any breach thereof is unacceptable and may result in disciplinary action.

## 8 Reporting

### 8.1 Internal reporting

No documents are created during the process sequence for internal purposes or are used to document individual process steps and required controlling.

### 8.2 External reporting

No regular reporting is required, except on the outcome of controlling and monitoring. Issues are to be reported without undue delay on an ad hoc basis. Not applicable as ETHENEA is a non-MiFID company.

## 9 Escalation

The following escalation has to be applied:

First escalation level	Policy Owner
Second escalation level	Department head, if different from first escalation level
Third escalation level	Management
Fourth escalation level	Board of Directors

**In the case of compliance-relevant topics, Legal & Compliance must also be informed immediately.**