



# Principles for executing trade decisions (best execution policy)

## 1. Introduction

In view of the implementation of Directive 2009/65/EC of the European Parliament and of the Council dated July 13, 2009, to coordinate the legal and administrative provisions related to Certain Undertakings for Collective Investment in Transferable Securities (UCITS) in their latest versions ("UCITS V Directive") and its Ordinances, the implementation of Directive 2011/61/EU of the European Parliament and of the Council dated June 8, 2011, related to the managers of alternative investment funds and to the amendment of Directives 2003/41/EC and 2009/65/EC and of Ordinances (EC) No. 1060/2009 and (EU) No. 1095/2010 in their latest versions (hereinafter "AIFM Directive") and its Ordinances, of the Act dated June 28, 2011, on Certain Undertakings for Collective Investment in Transferable Securities (UCITSA) in its latest version as well as the Alternative Investment Fund Managers Act (AIFMA) dated December 19, 2012, in its latest version, unified rules for management companies and managers of alternative investment funds have been specified in view of organizational requirements, conflicts of interest, codes of conduct, and risk management.

The purpose of these rules is to improve investor protection, boost market efficiency, and reduce administrative obstacles within the European financial market. Another key objective is to assure the best execution of trading decisions of undertakings for collective investment. The specifications to be observed are components of this best execution policy. They describe the execution principles that the management company and the AIFM must follow in trade decisions to assure the best possible execution in the interest of the investors.

## 2. Scope of applicability of the best execution policy

The best execution policy of IFM Independent Fund Management AG ("IFM", "management company") applies to trade decisions that IFM makes in the best interest of the portfolios that it manages.

In assessing the best possible execution of trade orders (order execution), IFM distinguishes between a scenario in which it places trade orders in the market itself and situations in which it involves another entity (such as the depositary of the respective fund, a broker, a trader, a counterparty) and merely forwards the order to such an entity for execution.

If IFM relies on a depositary, a broker, a trader or another counterparty for the execution of trade orders in the market, the obligation of the management company is limited to the choice of the depositary, the broker, the trader, or the counterparty (selection policy).

IFM has delegated the asset management and portfolio management of its undertakings for collective investment, mainly to prudentially supervised asset managers and portfolio managers. In this context, the asset managers and portfolio managers are contractually obligated to always execute securities and other trading transactions at competitive terms (best execution).



The best execution policy applies only to the following instrument categories or transactions:

- Securities
- Money market instruments
- Structured financial instruments
- Fund units, provided they are transacted via an exchange (stock market)
- Exchange-traded derivatives
- Forward Rate Agreements and all other OTC derivatives<sup>1</sup> (including Stock Options and Interest Options, Interest Swaps, Cross Currency Swaps, Total Return Swaps, Credit Default Swaps, etc.), that apply to purchasable assets
- Securities lending
- Alternative asset items insofar as they are purchasable

### 3. Execution factors that are relevant as regards the best execution of trading decisions and a best possible trading result

IFM shall act in the best interest of the undertakings for collective investment that it manages when executing trading decisions for the portfolios entrusted to it.

For the investor, a best possible result is not determined solely by the respective price of a financial instruments but by a combination of many different factors.

The relevance of individual factors depends on the nature of the transaction.

The management company shall undertake all reasonable measures to achieve the best possible result for the fund. Within the scope of the best execution of trading orders, the following factors play a role and shall be taken into consideration by the management company.

- Price of the asset to be purchased
- Cost of executing the order
- Speed of execution
- Probability of execution and settlement
- Scope and nature of the order
- as well as all other aspects of relevance to the execution of the order

The relative significance of these factors is determined by the following criteria:

- a) Objectives, investment policy, and specific risks of the undertakings for collective investment as set forth in the prospectus, or the contractual provisions or the articles of incorporation of the undertakings for collective investment;
- b) Characteristics of the order;
- c) Characteristics of the financial instruments involved in the respective order;
- d) Characteristics of the exchanges to which the order can be forwarded.

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<sup>1</sup> OTC stands for "over the counter". OTC transactions means transactions that are not executed on a stock market, a multilateral or organized trading system but instead handled between the market participants.



#### 4. Execution principles

Provided IFM itself places the orders in the market, it shall consider all factors listed in section 3. If OTC derivatives are involved, contract quality and counterparty solvency shall be further criteria.

Depending on the nature and scope of the respective order, the management company and the AIFM may weight the individual criteria differently at its discretion. As a rule, the dominant weighting is applied to the price of the asset to be purchased and the costs of order execution.

Orders involving financial instruments that are traded on a regulated market or a multilateral trading system will generally be executed at one of these trading platforms because they assure best possible pricing based on the temporal and local concentration of purchase and sale orders.

If, based on the nature of the financial instrument and the order volume, IFM should conclude that execution at one of these trading platforms is not reasonable, it can execute the transaction in the best interest of the undertakings for collective investment elsewhere, for instance via OTC trades.

If a financial instrument is traded at several exchanges or multilateral trading systems, orders shall be executed on a platform that for this category of financial instruments is likely to offer the most consistently best possible execution within the scope of the legal provisions.

If several platforms chosen in this way offer best possible execution, the management company and the AIFM is at liberty to make its choice based on due diligence.

For OTC transactions, at least two counterparty quotes (prices, counterparties, time) must be obtained and documented. If the trade involves a financial instrument for which one counterparty is clearly dominant (structured products, synthetic products, emerging markets, OTC products), a trade with a single counterparty is an acceptable exception.

#### 5. Deviation from principles in individual cases

If, according to the opinion of IFM, a purchase or sales order deviates significantly from conventional market standards due to its nature and/or scope, the management company and the AIFM can deviate from these principles and, on a case by case basis, execute the order in the interest of the investor or customer.

#### 6. Applicability of principles to special financial instruments

As regards the execution of orders involving non-standardized derivatives/OTC derivatives, transactions are finalized directly between the counterparty and the management company and the AIFM or between the counterparty and the respective depositary. Due to the individual nature of these transactions, no special execution platforms exist; instead, they are finalized bilaterally with selected counterparties and as a rule on the basis of standardized framework agreements.





These execution principles do not apply to the issue and redemption of fund units. The issue or redemption of fund units is handled by the respective management company or the respective depositary.

## 7. Forwarding of trade orders to other executing entities

As a rule, the management company and/or the AIFM does not execute the trading orders itself but instead will forward the orders on behalf of the undertakings for collective investment that it manages for execution to other entities (hereinafter: trading partners) such as the depositary of the respective undertaking for collective investment, brokers, contractual parties). In these cases, trading orders are transacted according to the respective execution principles of the facility in the best interest of the undertaking for collective investment.

## 8. Selection of trading platforms and entities (selection policy)

IFM pledges to select only trading platforms and trade partners (depositaries, brokers, traders, counterparties) whose execution policies allow the management company and the AIFM to achieve the best possible result for the orders placed on behalf of the undertakings for collective investment.

With respect to the selection of trading platforms and suitable trading partners, IFM shall have defined selection processes that are likely to safeguard consistent quality in order execution. The result of this selection process is a list of eligible trading platforms and trade partners (counterparty list) of relevance to fund management.

This counterparty list is regularly reviewed to verify that the listed depositaries, brokers, traders, and counterparties are likely to continue to offer best possible order execution according to the principles set forth herein.

This list of trading platforms and trade partners is regularly reviewed and in the event of non-compliance with the best execution policy of IFM allows the selection to be modified at any time if deemed necessary. Thus, the best execution policy can be updated to the latest status for all of the undertakings for collective investment managed by IFM.

Within the scope of best execution in conjunction with transactions for the undertakings for collective investment, the management company and the AIFM will retain services from trade partners that it relies on in the interest of investors when making investment decisions.

On request, IFM shall provide access to a current list of trade partners and trading platforms (counterparty list).

## 9. Handling of orders (order execution)

The management company and the AIFM shall assure prompt, diligent, and expedited execution of the portfolio transactions initiated for the undertakings for collective investment.

Order and procedural channels shall be defined as soon and as quickly as possible to assure that orders to be executed are immediately and correctly registered and assigned.



Otherwise comparable orders are generally executed consecutively unless this is impossible due to the characteristics of the order or to prevailing market circumstances or if the interests of the respective fund require a different approach.

Financial instruments or monies received for the settlement of executed orders shall be immediately and correctly booked to the account of the respective undertaking for collective investment.

## 10. Aggregation and assignment of trade orders (block trades)

IFM will aggregate several orders if their aggregation is necessary to assure the equitable treatment of the individual undertakings for collective investment and/or customers or if this presumably has no negative consequences for an undertaking for collective investment.

Aggregated orders (block trades) are movements in a single financial instrument for the account of several undertakings for collective investment or portfolios and are executed with a single transaction. If block trades are only partially executed, the partial execution is fundamentally split among the respective undertakings for collective investment or portfolios on a pro rata basis, i.e. proportionally to the order volume.

In the aggregation of trading orders of IFM for the investment of its own assets with orders from the undertakings for collective investment and or portfolios that it manages, IFM shall provide preferential treatment of these undertakings for collective investment and portfolios in partially executed orders.

## 11. IPO allocations

IPO allocations relate to the share of securities assigned to the management company or AIFM after oversubscriptions within the scope of an issue if the management company or AIFM acquired the instruments for several of the undertakings for collective investment or portfolios under its management.

Partially executed orders or orders executed at different terms / prices shall be basically allocated by IFM on a pro rata basis of the orders placed.

## 12. Internal transactions (purchase/sales orders between different undertakings for collective investment)

Internal transactions, so-called cross trades or compensation trades, are understood to mean transactions between undertakings for collective investment or portfolios managed by IFM or fund management mandates for which the same fund manager is responsible.

In exceptional cases, cross trades can be executed when this benefits the undertakings for collective investment or portfolios managed by IFM. This can be the case when bid/ask spreads are large, for instance. Such cross trades by the management company or the AIFM are handled at competitive market prices and in line with internal guidelines for safeguarding investor interests.



Within the scope of new financial instrument issues, IFM will generally aggregate its subscription requests for several undertakings for collective investment or portfolios to safeguard equitability as outlined above.

### 13. Review of principles

IFM regularly reviews the procedures it applies to achieve the best possible result for the investor. In this context, the review focuses on execution quality by the selected entity (cost, speed, and probability of execution). Weaknesses, if any are identified, are analyzed and eliminated as quickly as possible. Additionally, a comprehensive review of IFM's best execution policy is performed every year. A review of this kind is also initiated when a significant change occurs that could affect the ability of the management company or the AIFM to continue achieving the best possible result for the undertakings for collective investment that it manages.

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