

## Best Broker Selection Policy and Best Execution Policy

*Covéa Finance is the portfolio management company for the Covéa group. It has been approved by the French Financial Markets Supervisory Authority (L’Autorité des Marchés Financiers or AMF) and is authorised to provide portfolio management services on behalf of third parties, in the name and on behalf of principals and in the capacity of managers of investment funds (UCITS/AIF).*

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### Purpose of the best selection and best execution policy

This policy sets out the criteria adopted by Covéa Finance to ensure the protection of its clients in the context of the execution of an order generated by its management decisions.

An order is understood to be any instruction given for the sale or purchase of any financial instrument pursuant to article L. 211 -1 of the French Monetary and Financial Code (MFC).

### Background

In application, firstly, of articles 533-22-2-2, L. 533-18<sup>1</sup> of the MFC and of articles 321-111 et seq. of the AMF General Regulations ("RGAMF"), and, secondly, of article 321-114 of the same Regulations, Covéa Finance must act in the best interests of its clients and principals and/or of the holders of units or shares in the UCITS/AIF under management when executing an order or giving instructions to a broker to execute an order.

- When Covéa Finance is not a member of a trading platform\* and submits orders in the name and on behalf of undertakings for collective investments in securities (UCITS/AIF) and/or funds under management to authorised market intermediaries or to systematic internalisers, Covéa Finance is bound by what is known as a "**best selection**" obligation. This entails an obligation to take all sufficient measures in order to select those brokers best able to provide the best possible result for the execution of the orders.
- When Covéa Finance is a member of a trading platform (other than regulated markets) and/or itself executes orders resulting from a management decision, Covéa Finance is bound by what is known as a "**best execution**" obligation. This entails an obligation to take all measures sufficient to obtain the best possible result in the context of order execution.

### Categorisation

Covéa Finance is considered as a "*professional*" client, not as an "*eligible counterparty*". It asks to be categorised as such by brokers.

Brokers are bound by a best execution obligation in application of Directive 2004/39/EC, as amended, or any regime deemed to be equivalent, when Covéa Finance calls upon their execution services.

### Grouped orders and pre-placement of orders

Covéa Finance reserves the option to group orders from multiple portfolios under management, in order to obtain single execution of such orders, subject to the following preconditions:

- It must be highly unlikely for the grouping of orders to be detrimental to any one whatsoever of the clients in question,
- the pre-placement of a global order is recorded and retained on a durable medium.

Clients of Covéa Finance are informed that, despite all of the care taken by Covéa Finance and detailed in this policy, the group may be prejudicial for them compared with the execution of a specific order.

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<sup>1</sup> Article applicable via reference to part VII of article L. 532-9 of the French Monetary and Financial Code

### “Know Your Customer” files with regard to brokers

At the start of a relationship, Covéa Finance compiles a “Know your Customer” file for each of its shortlisted brokers (including the annual report, certificate of incorporation (“*extrait Kbis*”) or equivalent, agreement or terms of business, policies regarding execution and management of conflicts of interest).

This KYC file is updated regularly.

### Information on changes to the best selection and best execution policy

Covéa Finance will inform its clients about any modifications to its best selection and best execution policy by publishing an updated version on its website. Covéa Finance therefore asks clients to review on a regular basis the version of its execution policy available via the website [www.covea-finance.fr](http://www.covea-finance.fr).

#### **I. Preliminary shortlisting of brokers**

Covéa Finance has set up a Shortlisting Committee, tasked with compiling a list of brokers and financial counterparties who may be retained to provide services by the authorised individuals and committees, such as the Broker Selection Committee.

To be selected by the authorised individuals or committees, based on the criteria specific thereto, brokers and financial counterparties must have been added to the shortlist further to approval by the Shortlisting Committee.

The Shortlisting Committee is therefore not involved in the effective selection of one or several services from a given broker.

#### **A. Methodology used for the integration of new brokers**

Each new broker must be integrated by a decision in favour by the Shortlisting Committee, with regard to the types of instrument and integration criteria relating to the entity, prior to selection by an authorised individual or committee.

The Shortlisting Committee has sole authorisation to make decisions on the addition, suspension, rejection or prohibition of a broker via the shortlist.

##### **1. Composition of the Shortlisting Committee**

The Shortlisting Committee is comprised of the following individuals and departments:

- Managers,
- a representative from the Legal Department,
- an investment service compliance officer.

##### **2. Integration criteria**

Integration decisions are based on a range of criteria relating to the entity, including:

- risk factors,

- commercial and pricing factors,
- operational skills,
- reputation,
- financial structure,
- code of conduct and legal structure of the companies.

These criteria are not exhaustive and vary depending on the broker whose shortlisting is being contemplated.

### **3. Applications for integration or modification**

All requests for integration, suspension or withdrawal in relation to one or several brokers, for one or several types of product or service, must be supported by detailed reasoning and sent by the members of the authorised committees responsible for the request to a member of the Shortlisting Committee.

#### **B. Frequency with which the list of shortlisted brokers is revised**

The Shortlisting Committee meets at least once per year in order to examine the various assessments made of those brokers shortlisted and actually selected from the shortlist.

Upon completion of these observations, this same committee may decide, at its own initiative or further to a request filed as described above, on the addition, withdrawal, suspension or even prohibition of a broker.

An extraordinary meeting may be held at any time, due in particular to a notable change in the quality of the service provided by a shortlisted broker, to the publication of sanctions imposed on all or part of the activities of a shortlisted broker, to any change in market conditions or to developments specific to Covéa Finance. This extraordinary meeting may be called by any one of its members or further to a warning from the Brokers Selection Committee.

In the context of the management of suspense items, Management may issue a written decision via any means regarding the temporary or unlimited suspension of the said shortlisted broker responsible for the suspense items relating to all of the assets handled.

## **II. Broker Selection Policy**

This section covers situations in which Covéa Finance issues orders created by proprietary management decisions to a third party tasked with the execution of such orders (hereinafter, “brokers”).

### **A. Broker selection criteria**

Prior to their selection, Covéa Finance verifies that brokers have access to order execution mechanisms enabling them to comply with their obligation to obtain the best possible result.

A multi-criteria evaluation system is put in place to assess the quality of the execution services provided by the brokers selected.

Points are awarded on the basis of quantitative criteria such as the Hit Ratio\* in number and value, spread capture\*, TCA\* execution performance, the P&L generated compared with the prices obtained by brokers, the liquidity contributed by the latter. (\*see Glossary) Brokers are selected on the basis of the assessment made by the Trading Floor and by Middle Office.

### **1. The Trading Division**

The Trading Division has put in place a separate assessment process based on the type of financial instrument in question. This assessment leads to the creation of a ranking and the establishment of a list of selected brokers for each financial instrument.

The assessment criteria may vary based on the type of financial instrument, in order to meet the specific requirements of each market.

### **2. Middle Office**

Middle Office has put in place a separate assessment process based on product type. This ranking assesses in particular the quality of exchanges and settlement/delivery, the rate, management and change in suspense items with each broker. Middle Office may ask the various committee meetings to order the temporary suspension of a shortlisted broker for operational reasons (updating of settlement/delivery instructions, suspense items, delay with confirmations, etc.).

## **B. Detailed methods and frequency with which selected brokers are assessed**

### **1. The Broker Selection and Assessment Committee**

The Selection Committee meets to assess the brokers selected from across all categories of assets and financial instruments taken in combination.

Members of the Selection Committee may table at the Shortlisting Committee any request for the integration or withdrawal of a broker into or from the shortlist by detailing the reasons for such proposal on the basis of objective criteria. This proposal is then forwarded as minutes or a memorandum to the Shortlisting Committee for examination.

### **2. Composition of the Broker Selection and Assessment Committee**

The Committee is comprised of the following:

- One or several members of the Management Committee,
- Managers,
- All Traders,
- One representative from Middle Office,
- One representative from the Internal Audit Department,
- One representative from the Legal Department.

### **3. Frequency with which meetings of the Broker Selection and Assessment Committee are held**

The Selection and Assessment Committee meets at least once per year.

However, an extraordinary meeting may be held at any time, due in particular to a notable change in the quality of the service provided by a shortlisted broker, to the emergence of suspense items with a broker, to any change in market conditions or to developments specific to Covéa Finance.

#### **4. The Broker Monitoring Committee**

Broker monitoring committees also meet each month and the minutes of such meetings are circulated to Managers and all of the departments represented on this Committee.

These committees enable information to be circulated efficiently between departments in relation to any potential problems encountered with one or several of the brokers selected and the appropriate measures to be put in place to ensure projects progress smoothly and/or any operational issues are resolved.

An agenda is sent out ahead of each committee meeting. The Monitoring Committee does not meet in person unless substantial items are featured on the agenda.

#### **C. Oversight and revision of the selection policy**

Covéa Finance carries out regular monitoring regarding the effectiveness of this policy and, in particular, the execution quality provided by the entities selected in the context of this policy, in order, as applicable, to identify and apply any modifications necessary.

At least once a year, Covéa Finance re-examines this policy and its order execution mechanisms. This re-examination is also carried out whenever a significant change occurs which has an impact on the ability of a given broker to continue to obtain the best possible results for its clients.

### **III. Best Execution of Trades Policy**

This concerns cases in which Covéa Finance directly executes the orders generated by its management decisions. This is in particular the case when Covéa Finance is a member of a trading platform and/or executes orders without going through a broker.

Covéa Finance nevertheless notes, in accordance with the applicable regulations in force, that it does not provide execution services on behalf of third parties when directly executing orders generated by its proprietary decisions regarding the management of collective investment undertakings or mandates.

#### **A. Best execution criteria**

##### **1. Best execution factors**

When Covéa Finance is required to execute an order generated by a management decision, it takes great care to implement sufficient measures so as to obtain the best possible result, taking the following qualitative criteria into account:

- Price,
- Cost,
- Speed,
- Probability of execution and settlement,
- Order size,
- Order type,
- All other considerations relating to the execution of the order, such as the use of a clearing house by a trading platform.

## 2. Relative importance of execution criteria

In order to obtain the best possible results for its clients, Covéa Finance varies the importance of these execution criteria, based notably on the following factors:

- Characteristics of the client,
- Characteristics of the relevant order,
- Characteristics of the financial instruments to which the order relates,
- Characteristics of the execution venue to which the order may be sent.

In application of article 65 of Commission Delegation Regulation (EU) 2017/565 of 25 April 2016, Covéa Finance publishes on its website the annual report relating to the top five investment firms by class of financial instrument and a summary of the quality of execution obtained from the brokers.

## 3. Client characteristics

Covéa Finance provides third-party portfolio management services (individual discretionary management) and collective management services for professional clients.

## 4. Relative importance of criteria by order type

Order Type	Benchmark or Price Set	Factors and Criteria
VWAP	VWAP (Volume Weighted Average Price)	Price, liquidity, cost
At Market	Implementation shortfall	Price, liquidity, speed, cost
Limit	Limit	Price, liquidity, speed, cost
Opening	Opening price	Liquidity, cost, price
Closing	Closing price	Liquidity, cost, price
NAV - Close	NAV	Cost
Trigger threshold	First execution price	Price, speed, liquidity



## 5. Relative importance of criteria by type of financial instrument

FINANCIAL INSTRUMENT	PLATFORM TYPE	BEST EXECUTION STRATEGY & BROKER SELECTION	FACTORS & CRITERIA
<b>EQUITIES</b>			
Equities	RM, MTF, SI, SI (ELP), DARK POOL, PERIODIC AUCTIONS	Orders sent to selected brokers (see selection policy)	Price, liquidity, speed, cost based on order type, probability of settlement
ETFs (shares, bonds and commodities)	RM, MTF, SI, SI (ELP), DARK POOL	Orders sent: - Order sent to a broker featured on the list of selected brokers - Request for quote (RFQ) triggering competition between several authorised brokers	Price, liquidity, speed, cost based on order type (e.g. NAV), probability of settlement
<b>BONDS</b>			
Government bonds (French government bonds or "OATs", sovereign, supra-national, agency,	SI, OTF, MTF	Orders sent: - Order sent to a broker featured on the list of selected brokers - Request for quote (RFQ) triggering competition between several authorised brokers	Price, liquidity, speed, probability of settlement
Private debt (financial, corporate, etc.)	SI, OTF, MTF	Orders sent: - Order sent to a broker featured on the list of selected brokers - Request for (RFQ) triggering competition between several authorised brokers	Price, liquidity, speed, probability of settlement
<b>CONVERTIBLE BONDS</b>			
Convertible bonds	OTC, SI, OTF, MTF	Orders sent: - Order sent to a broker featured on the list of selected brokers - Request for quote (RFQ) triggering competition between several authorised brokers	Price, liquidity, probability of settlement
<b>MONEY MARKETS</b>			
Short term marketable securities, commercial paper, short-term sovereign	OTC	Orders sent to selected brokers (see selection policy)	Price, liquidity, probability of settlement
<b>LISTED DERIVATIVES</b>			
Futures (indexes with equities, commodities, interest rates, forex, as	RM	Orders sent to selected brokers (see selection policy)	Price, liquidity, speed, cost
Listed options (equities, indices, forex)	RM, MTF	Orders sent: - Order sent to a broker featured on the list of selected brokers - Request for (RFQ) triggering competition between several authorised brokers	Price, liquidity, speed, cost
<b>OTC DERIVATIVES</b>			
Interest rate swaps	OTC, MTF	Orders sent: - Order sent to a broker featured on the list of selected brokers with valid ISDA or FBF master agreements in place - Request for quote (RFQ) triggering competition between several authorised brokers with valid ISDA or FBF master agreements in place	Price, liquidity, speed
Forwards, swaps (forex)	OTC, MTF	Orders sent: - Order sent to a broker featured on the list of selected brokers with valid ISDA or FBF master agreements in place - Request for quote (RFQ) triggering competition between several authorised brokers with valid ISDA or FBF master agreements in place	Price, liquidity, speed
<b>FOREX (EXCLUDING DERIVATIVES)</b>			
Forex (spot)	OTC, MTF	Orders sent: - Order sent to a broker featured on the list of selected brokers - Request for quote (RFQ) triggering competition between several authorised brokers	Price, liquidity, speed, probability of settlement

## 6. Execution venues

Orders may be executed in consideration of best execution criteria and the characteristics of each order on:

- The main regulated markets (RM, including those granted exemptions from pre- or post-trading transparency requirements);
- Organised or non-organised multilateral trading facilities (MTF-OMTF);
- Systematic internalisers which execute orders outside of the RM and MTF by matching (SI, ELP (SI));
- Organised trading facilities (OTF) which can be used for the trading of bonds, structured products, emissions quotas and derivatives if sufficiently standardised;
- Other trading systems which use periodic auctions and trading platforms covered by exemptions with regard to pre-trading transparency obligations (known as “dark pools”);
- The over-the-counter market.

The factors which influence the choice of execution venue are price, need for rapid execution, market liquidity, order size and type and whether the client has agreed to off-market execution or not.

### B. Specific situations

#### 1. Complex and/or less liquid products

For trading in products which are less liquid, the Covéa Finance Trading Floor may only be able to obtain one price. It will do everything possible to obtain the best result for its clients.

Covéa Finance may trade in complex instruments, on the primary or secondary market, for which one single broker may provide prices or carry out market-making activities. In certain specific cases and given the complexity of a given financial instrument, the relevant Management teams will determine upstream all of the relevant execution details, and will ensure the pricing and counter-pricing of such instruments in accordance with our internal procedures. The objective is to achieve the best possible result for each trade.

#### 2. Intra-portfolio transactions

Covéa Finance may carry out transactions between the portfolios under its financial management, in full compliance with the internal procedures designed to avoid any potential conflicts of interest.

#### 3. Abnormal market conditions

In the event of market disruption and/or an internal or external system failure, the ability to execute orders, in a timely manner if possible, becomes the absolute priority.

In the event of a system failure, the Trading Floor may not be able to access all usual execution channels.

### C. Platform selection criteria

Covéa Finance is a member of regulated trading platforms classed as organised trading facilities (MTF) for the processing and execution of interest rate products and forex products (excluding equities and comparable securities).

These platforms have been selected on the basis of an independent selection process. This also took into consideration other criteria such as settlement/delivery and the territorial application of the European rules which govern the market and its manager.

### D. Criteria for the selection of execution algorithms

Covéa Finance uses execution algorithms which are the property of the shortlisted and selected brokers. Assessment charts have been drawn up along with oversight reports relating to execution quality and the liquidity of the listing markets to which the algorithms have access. On the basis of its analyses, Covéa Finance may ask for restrictions to be imposed on certain listing venues within the parameters set by the broker.

In certain cases, for certain types of trade, Covéa Finance may use an “*algo wheel*” which enables order flow to be shared fairly between the various agents on the basis of comparable algorithms and execution parameters.

### E. Oversight and revision of the order execution policy

Covéa Finance carries out regular checks to determine whether the execution systems described in this policy allow the best possible results to be obtained for its clients or if modifications need to be made to its execution protocols.

At least once a year, Covéa Finance re-examines this policy and its provisions. This re-examination is also carried out whenever a significant modification impacts Covéa Finance’s ability to obtain the best result possible from the execution of client orders by using the platforms identified in its best execution policy. Covéa Finance assesses whether a significant modification has occurred and, if applicable, adjusts the relative significance of the execution factors in the overall achievement of best execution.

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## GLOSSARY

**Hit ratio:** *The hit ratio is a statistical indicator of the use made of the services provided by a broker. This compares the number of times on which Covéa questioned the agent concerning the sale or purchase of a financial security with the number of times this counterparty actually executed the trade.*

**Spread capture:** *Represents the ability to generate a bid/ask spread that is as narrow as possible for each trade.*

**Trading platform:** *A trading platform is a regulated market as per article L.421 -1 of the MFC, a multilateral trading system as per article L. 424-1 of the MFC or an organised trading system as per article L. 425-1 of the MFC*

**TCA:** *“Transaction Cost Analysis”, analysis of the cost of transactions across one or several markets.*

**P&L:** *“Profit and loss”, profitability of a transaction.*