

Best Selection Policy for execution intermediaries and Best Execution Policy



Covéa Finance is the portfolio management company of the Covéa Group. It is approved by the Autorité des Marchés Financiers (AMF/the French Financial Markets Authority) and acts as an agent in the name and on behalf of principals and as a manager of collective investment undertakings (UCITS/AIF).

Purpose of the Best Selection Policy and Best Execution Policy

This policy presents the criteria used by Covéa Finance to ensure the protection of its customers when executing an order resulting from its management decisions.

An order is understood as any instruction to buy or sell a financial instrument mentioned in Article L. 211-1 of the French Monetary and Financial Code (FMFC).

Background

Pursuant to Articles 533-22-2-2, L. 533-18¹ of the FMFC and Articles 321-111 and following of the AMF General Regulations (AMFGR) on the one hand, and Article 321-114 of the same regulations on the other hand, Covéa Finance must act in the best interests of its customer principals and/or holders of units or shares of UCITS/AIF which it manages when it executes an order or arranges for an order to be executed by an intermediary.

- When Covéa Finance is not a member of a trading platform* and sends orders in the name and on behalf of collective investment undertakings (UCITS/AIF) and/or mandates managed by approved market intermediaries or systematic internalisers, Covéa Finance is subject to a so-called "**best selection**" obligation. This is reflected in the obligation to take all reasonable steps to select the intermediaries most likely to provide the best possible results for the execution of orders.
- When Covéa Finance is a member of a trading platform (excluding regulated markets) and/or executes orders resulting from management decisions itself, Covéa Finance is subject to a so-called "**best execution**" obligation. This is reflected in the obligation to take all reasonable steps to obtain the best possible results when executing orders.

Categorisation

Covéa Finance considers itself as a "professional" customer and not an "eligible counterparty". It asks intermediaries (brokers) to categorise it as such.

¹ Article applicable by reference to VII of Article L. 532-9 of the French Monetary and Financial Code

When Covéa Finance uses their execution services, intermediaries are subject to the best execution obligation resulting from the revised Directive 2004/39/EC or an equivalent regime.

Grouped orders and pre-assignment of orders

Covéa Finance reserves the right to group the orders of several portfolios under management in order to obtain a single execution, under the following preconditions:

- It is unlikely that the grouping of orders will work against any of the customers concerned,
- The pre-assignment of a global order is materialised and stored on a durable medium.

Covéa Finance's customers are expressly informed that, despite all the procedures observed by Covéa Finance as detailed in this policy, the grouping may have a detrimental effect on them in relation to the execution of a particular order.

Knowledge records with execution intermediaries

When entering into a business relationship Covéa Finance sets up a knowledge record for each of its referenced intermediaries (including annual report, Kbis company registration extract or equivalent, contract or terms of business, execution policies, conflicts of interest management policy, etc.).

This knowledge record is updated periodically.

Information on changes to selection and execution policies

Covéa Finance will inform its customers of any changes to its selection and execution policies by making an updated version available on its website. Covéa Finance also asks its customers to regularly check the version of its execution policy available on its website: www.covea-finance.fr.

I. Prior referencing of intermediaries

Covéa Finance has set up a Referencing Committee whose purpose is to compile a list of intermediaries and financial counterparties, whose services may be selected by authorised persons or committees, such as the Selection Committee for execution intermediaries.

In order to be selected by the authorised persons and committees, according to criteria of their own, intermediaries and financial counterparties must have been included in the referencing list following a favourable decision by the Referencing Committee.

The Referencing Committee is therefore not involved in the actual selection of the service(s) of a particular intermediary.

A. Methodology for integrating new intermediaries

Given the types of instruments, each new intermediary must be authorised by the Referencing Committee prior to its selection by an authorised person or committee.

The Referencing Committee has sole authority to decide on the addition, suspension, removal or prohibition of an intermediary on the referencing list.

1. Composition of the Referencing Committee

The Committee is composed of members of the Management Committee and managers, including:

- The Compliance and Internal Control Manager or one of his/her representatives,
- The Risk control Department Manager or one of his/her representatives,
- The Middle Office Manager or one of his/her representatives,
- The Legal Department Manager or one of his/her representatives.

2. Integration criteria

Integration decisions are based on various criteria relating to the entity, including:

- risk factors,
- commercial and pricing aspects,
- operational skills,

- reputation,
- financial structure,
- the ethics and legal structure of the companies.

These criteria are not exhaustive and vary according to the intermediary whose referencing is being considered.

3. Integration or modification requests

Any integration, suspension or withdrawal request relating to one or more intermediaries, for one or more type(s) of products or services, must be justified and sent to a member of the Referencing Committee by the person(s) or service(s) originating it.

B. Review frequency for the list of referenced intermediaries

The Committee meets at least once a year in order to take note of the various assessments of referenced intermediaries that are actually selected.

Following these observations, the Referencing Committee may decide, either by itself or by request in accordance with the above terms, to add, withdraw, suspend or prohibit an intermediary.

An exceptional meeting may be held at any time, particularly because of a significant change in the quality of service of a referenced intermediary, a sanction issued against all or part of the activities of a referenced intermediary, a change in market conditions or an evolution specific to Covéa Finance. This exceptional meeting may be convened by one of its members or by an alert from the Selection Committee for execution intermediaries.

II. Selection policy for execution intermediaries

This covers cases in which Covéa Finance sends orders resulting from its management decisions to a third party responsible for executing them (hereinafter "execution intermediaries" or "brokers").

A. Selection criteria for execution intermediaries

Prior to their selection, Covéa Finance verifies that intermediaries have order execution mechanisms that allow them to fulfil their obligation to provide the best possible results.

An assessment system with multiple criteria is set up to assess the quality of execution of selected intermediaries.

Points are awarded based on quantitative criteria, such as the number and amount of *Hit Ratios**, *spread captures** and the execution performance of the TCA* and P&L* generated by comparing the prices given by intermediaries and the liquidity provided by them. (*See Glossary)

The selection of intermediaries results from the assessment of the Trading Table and the Middle Office.

1. The Trading Division

The Trading Division has set up a separate assessment process according to the type of financial instrument. This assessment gives rise to a ranking and the establishment of a list of selected intermediaries by financial instrument. The assessment criteria may differ depending on the type of financial instrument in order to respond to the specificities of each market.

2. The Middle Office Division

The Middle Office has set up a separate rating process according to type of product. This rating assesses in particular the quality of exchanges and settlements/deliveries with each intermediary.

B. Terms and frequency of assessing the selected execution intermediaries

1. The Selection and Assessment Committee for execution intermediaries

The Committee meets to assess the selected execution intermediaries on all asset classes and financial instruments combined.

The members of the Selection Committee can propose to add or remove an intermediary from the referencing list by justifying this proposal through

objective criteria. This proposal is sent to the Referencing Committee for consideration in the form of a note or report.

2. Composition of the Selection and Assessment Committee for execution intermediaries

The Committee is composed of the following people:

- One or more members of the Management Committee
- Managing Directors,
- Managers of management teams,
- All Traders,
- A Middle Office representative,
- An Internal Control representative,
- A Legal Department representative.

3. Frequency of Committee meetings

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

Monitoring committees are also held monthly by exchanging emails. These committees allow for a smooth flow of information between departments regarding any difficulties encountered with one or more selected intermediaries. An agenda is sent before the start of each Committee meeting. The members of the committee only meet in person if substantial items are on the agenda.

However, an exceptional meeting may be held at any time, particularly because of a significant change in the quality of service of an authorised intermediary, a change in market conditions or an evolution specific to Covéa Finance.

C. Checks and review of the selection policy

Covéa Finance regularly monitors the effectiveness of this policy and, in particular, the quality of execution of the entities selected in the context of this policy in order to identify and, if necessary, make the necessary modifications.

Covéa Finance reviews this policy and its provisions at least annually. This review is also carried out each time there is a significant change that affects the ability of the intermediary to continue to obtain the best possible result for its customers.

III. Best Execution Policy for transactions

This covers cases in which Covéa Finance directly executes orders resulting from its management decisions. This is particularly the case when Covéa Finance is a member of a trading platform and / or executes orders without the involvement of an intermediary.

Covéa Finance points out, however, in accordance with the applicable regulations in force, that it does not provide an execution service on behalf of third parties when it executes itself orders resulting from its own management decisions, managers of collective investment undertakings or mandates.

A. Best execution criteria

1. Best execution factors

When Covéa Finance finds itself in the situation of executing an order resulting from a management decision, it strives to implement all the measures necessary to obtain the best possible result, by taking the following qualitative criteria into account:

- The price,
- The costs,
- The speed,
- The likelihood of execution and settlement,
- The size of the orders,
- The nature of the orders,
- Any other considerations relating to the execution of the order such as the use of a clearing house by a trading platform.

2. The relative importance of execution factors

In order to obtain the best possible result for its customers, Covéa Finance regulates the importance of the execution criteria based on the following factors:

- Customer characteristics,
- The characteristics of the order concerned,
- The characteristics of the financial instruments to which the order relates,
- The characteristics of the places of execution to which this order may be directed.

3. Customer characteristics

Covéa Finance provides account portfolio management services for third parties (individual management under a mandate) and services collective management services for professional and retail customers.

4. The relative importance of criteria by order types

Order Type	Benchmark or Price defined	Factors and Criteria
VWAP	VWAP (Volume Weighted Average Price)	Price, Liquidity
Market price (At Market)	Arrival price (Implementation Shortfall)	Price, liquidity, speed
Limit	Limit	Price, liquidity, speed
Opening	Opening price	Liquidity, costs, price
Closing	Closing price	Liquidity, costs, price
Closing NAV	NAV	Costs
Trigger threshold	First execution price	Speed, liquidity, price

5. The relative importance of criteria by instrument types

FINANCIAL INSTRUMENTS	TYPES OF Platforms	BEST EXECUTION STRATEGY & INTERMEDIARY SELECTION	FACTORS & CRITERIA
ACTIONS			
Shares	RM, MTF, SI, DARK	Orders sent to selected intermediaries (see selection policy)	Price, liquidity, speed, costs according to the type of order
ETFs (shares, bonds and raw materials)	RM, MTF, SI	Orders sent: - selected intermediaries - request for quote (RFQ) to certain counterparties (see selection policy) when liquidity is provided by market makers, or to counterparties accessible through electronic execution systems	Price, liquidity, speed, costs according to the type of order (e.g. NAV), likelihood of settlement
BONDS			
State bonds (OATs, sovereign, supranational, agencies, covered bonds, treasury bonds, etc.)	SI, OTF, MTF	Request for quote (RFQ) to certain counterparties (see selection policy) when liquidity is provided by market makers, or to counterparties accessible through electronic execution systems	Price, liquidity, speed, likelihood of settlement
Private debts (financial, business, etc.)	SI, OTF, MTF	Request for quote (RFQ) to certain counterparties (see selection policy) when liquidity is provided by market makers, or to counterparties accessible through electronic execution systems	Price, liquidity, speed, likelihood of settlement
MONEY MARKET			
Short-term negotiable securities, commercial securities, short term sovereign bonds, etc.	OTC, OTF, MTF	Request for quote (RFQ) to certain counterparties (see selection policy) when liquidity is provided by market makers, or to counterparties accessible through electronic execution systems	Price, liquidity
EQUITY DERIVATIVES			
Forward contracts (stock futures, indices, basket of stocks, etc.)	RM, OTC	Orders sent: - selected intermediaries - request for quote (RFQ) to certain counterparties (see selection policy) when liquidity is provided by market makers, or to counterparties accessible through electronic execution systems	Price, liquidity, speed, costs
Convertible bonds	RM, OTC, SI, OTF	Orders sent: - selected intermediaries - request for quote (RFQ) to certain counterparties (see selection policy) when liquidity is provided by market makers, or to counterparties accessible through electronic execution systems	Price, liquidity
RATE DERIVATIVES			
Forward contracts (bond futures, etc.)	RM	Orders sent to selected intermediaries (see selection policy)	Price, liquidity, speed, costs
CHANGE			
Spot	OTF, SI, MTF	Orders sent: - selected intermediaries - request for quote (RFQ) to certain counterparties (see selection policy) when liquidity is provided by market makers, or to counterparties accessible through electronic execution systems	Price, liquidity
Forwards and swaps	OTF, SI, MTF	Request for quote (RFQ) to certain counterparties (see selection policy) when liquidity is provided by market makers, or to counterparties accessible through electronic execution systems	Price, liquidity
Futures change	RM	Orders sent to selected intermediaries	Price, liquidity, speed, costs

6. Places of execution

Orders may be executed, taking account of the best execution criteria and the characteristics of each order, on:

- The main regulated markets (RM, including those benefiting from exemptions from pre or post-trade transparency obligations);
- Multilateral trading systems, whether organised or not (MTS-OMTS);
- Systematic internalisers executing orders outside RM or MTS by matching (IS)
- Organised trading systems (OTS or OTF) where bond products, structured products, emission allowances and derivatives that are sufficiently standardised can be traded;
- The over-the-counter market.

The factors that influence the choice of place of execution include the price, the need for execution as soon as possible, the liquidity of the market, the size and nature of the order and whether or not the customer has given consent for an off-market execution.

B. Special situations

1. Illiquid and/or complex products

It may be that Covéa Finance's Trading Table obtains only one price for trading illiquid products. It will implement all means to obtain the best result for its customers.

Covéa Finance can trade complex instruments, on the primary or secondary market, whose listings are provided by only one intermediary or whose market making is done by a single intermediary. In certain special cases and taking into account the complex nature of a financial instrument, the management teams concerned will determine all the elements of execution upstream.

In accordance with the internal procedures governing these situations, the objective is to achieve the best possible result for each transaction.

2. Transactions between portfolios

In order to prevent potential conflicts of interest, Covéa Finance may carry out transactions between the portfolios it manages in accordance with internal procedures.

3. Abnormal market conditions

In the event of severe market disruption and/or failure of an internal or external system, the ability to execute orders, in a timely fashion if possible, becomes the main priority. In the event of failure of a system, the Trading Table may not be able to access all of its usual modes of execution.

C. Criteria for selecting platforms

Covéa Finance is a member of a regulated trading platform that has organised trading system (MTS) status for the processing and execution of fixed income products (excluding equities and similar securities).

This platform has been selected according to an independent selection process. This selection also took other criteria into account, such as settlement/delivery and the territorial application of the European rules governing the market and its manager.

D. Checks and review of the order execution policy

Covéa Finance regularly checks whether the execution systems provided for in this policy obtain the best possible result for its customers or if it needs to make changes to its execution arrangements.

Covéa Finance reviews this policy and its provisions at least annually. This review is also carried out each time a major change affects Covéa Finance's ability to obtain the best possible result in executing its customers' orders by using the platforms provided for in its execution policy. Covéa Finance assesses whether a major change has occurred and if so, adjusts the relative importance of the execution factors in achieving the overall best execution objective.

GLOSSARY

Hit ratio: The hit ratio is a statistical indicator of the use of an intermediary's services. It compares the number of times Covéa questioned the intermediary concerning the purchase or sale of a financial security with the number of times that this counterparty actually executed the transaction.

Spread captures: Represents the ability to obtain the best possible price for each transaction.

Trading platform: A trading platform is a regulated market within the meaning of Article L.421-1 of the FMFC, a multilateral trading system within the meaning of Article L. 424-1 of the FMFC or a an organised trading system within the meaning of Article L. 425-1 of the FMFC

TCA: "Transaction Cost Analysis, an analysis of the cost of transactions in one or more markets."

P&L: "Profit and loss", the profitability of a transaction.