

BNP PARIBAS ASSET MANAGEMENT

Best Execution and Selection Policy



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BNP PARIBAS
ASSET MANAGEMENT

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1. INTRODUCTION

1.1. PURPOSE OF THIS POLICY

This Best Execution and Selection Policy ("Policy") describes the measures implemented by **BNP PARIBAS ASSET MANAGEMENT** Europe and its branches and BNPP AM UK ("BNPP AM") to ensure the best selection of intermediaries and the best execution of the transactions on behalf of the portfolios and mandates it manages.

1.2. REGULATORY AND INSTRUMENTS SCOPE

This Policy is drafted in accordance with the requirements of the European Directive 2014/65/UE ("MIFID II") and covers all financial instruments described in the Annex I, Section C of MIFID II. In cases where local legislation or regulatory requirements are more stringent than MIFID II requirements, those local requirements shall prevail.

Whilst FX spot (whether traded OTC or via electronic platforms) is not a financial instrument as defined by ESMA (except under certain conditions of roll), by implication of contractual arrangements with clients on best execution, FX spot is covered by this Policy.

The Policy applies to all our clients worldwide, professionals and non-professionals as defined by MIFID II, whether they are holders of an individual mandate or investors in a fund such as Units of Collective Investments in Transferable Securities ("UCITS"), Alternative Investment Funds ("AIF") or any other legal structure. When BNPP AM has delegated investment management to an external regulated entity, the selection and execution policy of the delegate applies. In such circumstances, BNPP AM takes all sufficient steps to ensure that the service provided to its client is performed in accordance with the best interests of the client.

A three-step process has been defined accordingly:

- ▶ A process for selecting intermediaries (referred to as the "best selection Policy"),
- ▶ A process relating to transactions execution (referred to as the "best execution Policy"),
- ▶ A control framework monitoring the efficiency of this Policy either directly implemented or based on services provided by third parties.

2. INTERMEDIARIES SELECTION POLICY

2.1. GOVERNANCE TO SELECT EXECUTION INTERMEDIARIES

BNPP AM applies a formalised process for selecting execution intermediaries based on their ability to trade, from front to back, the various types of instruments. To avoid any misunderstanding, the term "broker" used herein applies to intermediaries executing delivery versus payment transactions whereas the term "counterparty" is only used for intermediaries executing OTC derivatives transactions, the reference to "intermediaries" or "Authorised Providers" being construed as encompassing both brokers and counterparties.

BNPP AM has defined a strict procedure whereby representatives of Investment Management teams, Compliance, Risk departments and representatives of BNPP AM Global Trading Function ("GTF") which encompasses also BNP Paribas Dealing Services ("BNPP Dealing Services"), a subsidiary of BNPP AM negotiating for BNPP AM account the execution conditions of a large part of the transactions, participate to specific governance bodies:

- ▶ **A Best Selection & Best Execution Committee ("BSBE")** is held bi-annually, organised by GTF, chaired by the Head of the Investments business line, with the participation of the main BNPP AM Chief Investment Officers representing the main investment centres (equity, fixed income, multi assets, systematic and quantitative investments), alongside with Risk and Compliance representatives. The objective is, on one hand, sharing the Sell Side assessment ("Best Selection") covering the meaningful Authorised Providers for BNPP AM entities (excluding the Emerging franchise local entities) throughout a quantitative and qualitative assessment, and on the other hand, appreciating the trading performance ("Best Execution") delivered by GTF, throughout both Trading Costs Analysis and Trading Performance Analysis. A main output of the BSBE is to officially endorse the list of Authorised Providers which may evolve. This committee may also raise notable topics for discussion with Risk and/or Compliance functions.
- ▶ **Brokers reviews** with the main Authorised Providers (aka intermediaries) are organised twice a year to share BNPP AM assessment of their strengths and weaknesses in order to get the best-in-class services from them.

At any time, Risk and Compliance functions have the authority to suspend any individual broker or counterparty with or without the approval of the committees mentioned above.

2.2. CRITERIA TO ASSESS EXECUTION INTERMEDIARIES

The specific qualitative criteria to add an execution intermediary to the approved intermediaries list varies based on the asset class to be traded, taking into account the specific value added of the intermediary. However, the overall approval process and assessment criteria applies across all asset classes. Once the intermediary has been added to the Authorized Intermediaries list, several criteria are taken into account to perform a global assessment of execution:

- ▶ A vote is organized twice a year among GTF traders (located both in BNPP Dealing Services and in various BNPP AM entities) to assess and rank execution intermediaries they work with. The vote includes quantitative and qualitative criteria adapted to each asset class.
- ▶ An oversight of the quality of transactions processing, including settlement, by brokers and counterparties is ensured by BNPP AM.

In addition, a regular control of execution intermediaries' Financial Security soundness is also performed by GTF on indicators relating to their good standing and reputation (registration, anti-money laundering measures, financing of terrorism and compliance with international sanctions, sanctions from regulators as part of the Know your Broker process).

2.3. ADDITIONAL CRITERIA TO ASSESS EXECUTION COUNTERPARTIES

Regarding counterparties approved to execute OTC derivatives, additional criteria are scrutinized by the Risk and Legal teams:

- ▶ The Credit Risk team monitors funds regulatory ratios (e.g. concentration and diversification) and counterparty exposures at fund, mandate and global levels. In addition, the Global Credit Committee (GCC) owns the responsibility to approve the list of counterparties eligible for OTC transactions.
- ▶ The Legal team ensures that the contractual relationship between the counterparty and BNPP AM is documented under a relevant market agreement, which in most cases is an ISDA (*International Swaps and Derivatives Association*) and VM CSA (*Variation Margin Credit Support Annex*) but may be another standard market agreement as required by transaction or local regulatory needs.

2.4. INDEPENDENCE OF RESEARCH SERVICES AND EXECUTION SERVICES PROVIDED BY INTERMEDIARIES

BNPP AM applies a specific process for selecting providers of research services and investment support. The application criteria for the selection of research providers is distinct from those applied for selecting execution intermediaries. This however does not preclude BNPP AM to select the same intermediaries both for execution and research services.

As a key principle of this Policy, the cost of external research is distinguished and independent from the cost of executing a trade. These costs can be either:

- ▶ Collected from the portfolio by the execution intermediary at the time of settlement of a transaction pursuant to a commission sharing agreement, it being understood that the research commission will be distinct from the execution commission. The amounts so collected will be used by BNPP AM to pay research material relevant to the considered portfolio to the various research providers according to the pre-defined budget of research.
- ▶ Paid directly by BNPP AM from its own resources.

3. EXECUTION POLICY

3.1. ORGANISATION OF THE EXECUTION FUNCTION WITHIN BNPP AM

BNPP AM applies whenever possible the principle of segregation of functions between the order instruction and the order execution. As a consequence, BNPP AM uses its best effort to ensure that transactions are handled through a BNPP AM trading desk separate from the investment management team.

BNPP AM has therefore implemented two execution setups:

▶ **BNPP Dealing Services:**

For most transactions, BNPP AM has entered into a service provision agreement covering the trading function with BNPP Dealing Services pursuant to which the services of reception and transmission of orders and execution of orders (RTOE) for third parties are provided under BNPP Dealing Services' selection and execution policy, which is fully consistent with the BNPP AM Policy. BNPP Dealing Services may decide to delegate under its responsibility the transmission and execution of orders to trading desks located in BNPP Asset Management USA and BNPP Asset Management Asia (HK) (hereinafter referred to as "Other Trading Desk"), if relevant to pursue best execution. BNPP

Dealing Services, a full subsidiary of BNP Paribas Asset Management Holding, is an investment firm located in France, duly authorised by the French Financial Authorities (AMF and ACPR).

► **Portfolio Managers:**

In case of total or partial impossibility to forward orders to BNPP Dealing Services for specific and/or exceptional reasons, the trading with approved intermediaries may be conducted directly by portfolio managers. A formal waiver process detailing the rationale for exemption to the standard process and the details of the transactions is required and subject to validation by BNPP AM management, the Risk and Compliance teams. Where possible, the principle of segregation should be respected between the reception of the order and the execution of the order by ensuring that:

- The portfolio manager who raises the order in the front office tool must be different from the portfolio manager who trades in the market
- Front office access rights must be granted according to the investment team's organization.

3.2. EXECUTION VENUES

Although this does not amount to a comprehensive list (for details refer to annex I), The venues where the Clients' orders may be executed are:

- execution venues ¹: regulated markets, multilateral trading facilities, organized trading facilities, systematic internalisers (SI) or any other execution venues, as set out in the Authorised Provider's execution policy
- over-the-counter markets (seeking and selecting the Authorised Provider in order to enable the execution of the order between this Authorised Provider and the portfolio(s))

It should be noted that BNPP AM never acts as a member of a regulated market and is not directly involved in filling the order book of a regulated market (no Direct Market Access). However, in order to transfer the order to a regulated market or a multi-lateral trading system, BNPP AM may use the market access tools made available by the Authorised Providers. BNPP AM may also use an automatic processing system that is made available by Authorised Providers on behalf of the Clients.

Onboarding of a new execution venue directly chosen by BNPP AM for order execution follows a formal internal validation process. On a regular basis, BNPP AM requires authorised traders to read and acknowledge rules for each venue they personally are allowed to trade in.

3.3. SELECTION OF AN EXECUTION INTERMEDIARY WITHIN THE APPROVED LIST

BNPP AM shall seek the most favourable conditions of execution and the best possible outcome for the client in accordance with this Policy. To do so, BNPP AM and BNPP Dealing Services when relevant, can access to a variety of execution intermediaries and methods. This allows efficient dealing arrangements for a wide variety of trading circumstances that may reduce transaction costs, mitigate operational risk resulting in a lower chance of error or execution issues as well as accelerate trades execution to take advantage of short-lived market opportunities.

BNPP Dealing Services or BNPP AM or any Other Trading Desk, as the case may be, selects the execution intermediary by applying the following criteria, ranked in order of importance:

- Selection among the approved list of execution intermediaries established by BNPP AM as described in Section 2.
- Ability of the execution intermediary to execute the order in accordance with the BNPP AM execution Policy.
- Application of client's specific requirements as follows:
 - A client giving a discretionary mandate to BNPP AM is entitled to communicate specific instructions (like using a specific intermediary) BNPP AM will comply with those instructions but will not be responsible for applying the principles of best execution for the criteria impacted by these instructions.

3.4. DESCRIPTION OF THE BEST EXECUTION CRITERIA

BNPP AM takes into account the 7 factors set out by MIFID II Delegated Acts C (2016) 2398 (Recitals 101, 107 and Article 66):

- order type: capacity of the venue to clearly identify and execute specific Client's instruction
- price: capacity of the venue to attract liquidity providers that foster a healthy competition to provide best price for end client
- size: overall volumes traded on specific asset type in the venue as indicator of liquidity found
- swiftness of execution: connectivity to Order management system and ease of use by BNPP AM and by Authorised Providers
- cost: overall cost of execution including fees charged by the venue to BNPP AM if any and to Authorised Providers

¹ As defined in Annex I – List of financial instruments and execution venues in the « Venues definition » sheet

- likelihood of execution: venue volumes on specific asset type as indicator of probability of finding liquidity in the venue
 - settlement process: ease in post trade treatment that facilitates settlement process
- Other (qualitative) criteria

While price, size and nature of the order are generally the most important execution factors to be taken into account, the relative importance of each criterion depends on the financial instrument and the order type.

BEST EXECUTION CRITERIA RANKING BY INSTRUMENT CLASS

Equities and Exchange Traded Funds (ETFs)

The priority of the execution factors when transacting equities is typically:

	Price	Direct execution costs	Speed of execution	Likelihood of execution and settlement	Size of the order	Nature of the order
Equity	1	2	2	2	2	1
ETFs	1	2	2	2	2	1

Government bonds, corporate bonds (Credit), convertible bonds and Money market instruments

The priority of the execution factors when transacting bonds and Money Market Instruments is typically:

	Price	Direct execution costs	Speed of execution	Likelihood of execution and settlement	Size of the order	Nature of the order
Bonds (Govies & Credit)	1	Included in the price	2	2	1	1
Convertible bonds	1	Included in the price	2	2	1	1
Money Market instruments	1	Included in the price	2	2	1	1

An exception is existing for Switzerland bonds where the priority of the execution factors is typically:

	Price	Direct execution costs	Speed of execution	Likelihood of execution and settlement	Size of the order	Nature of the order
Swiss Bonds (Govies & Credit)	1	2	2	2	1	1

Exchange traded derivatives (ETDs)

The priority of the execution factors for ETDs is typically:

	Price	Direct execution costs	Speed of execution	Likelihood of execution and settlement	Size of the order	Nature of the order
ETDs	1	2	2	2	1	1

OTC instruments (FX, derivatives and packaged products)

For an OTC instrument ², the obligation of best execution may be limited in practice as a result of the documentation requirements, credit exposure, complex, customised or structured nature of the transaction. We usually place orders either on an MTF (typically for cleared and more standardised OTC derivatives) or with an SI (for more bespoke transactions), but we may as well trade with counterparties that do not qualify as SIs.

We also set diversification requirements for use of counterparties. We may not select a counterparty if the conclusion of an order with that counterparty would cause a breach of counterparty exposure limit.

The priority of the execution factors when transacting OTC instruments is typically:

	Price	Direct execution costs	Speed of execution	Likelihood of execution and settlement	Size of the order	Nature of the order
OTC instruments	1	Included in the price	2	2	1	1

Securities Financing (e.g. repo/reverse repo and securities lending)

Repo / Reverse Repo

The repurchase agreement (Repo) is an OTC instrument. Please refer to the 'OTC instruments' part to see how we manage Repo / Reverse Repo from a best execution and best selection perspective. The priority of the execution factors for repo /reverse repo is typically:

	Price	Direct execution costs	Speed of execution	Likelihood of execution and settlement	Size of the order	Nature of the order
Bonds (and equity on an ad hoc basis)	1	Included in the price	3	1	1	2

Securities Lending ³

The priority of the execution factors for securities lending is typically:

	Price	Direct Execution costs	Speed of execution	Likelihood of execution and settlement	Size of the order	Nature of the order
All assets type (fixed-income and equity assets)	1	3	2	2	1	1

During the life of the Securities Lending transactions, there is a possibility to re-rate the transactions. The re-rate process is maintained to ensure that we will obtain the best possible result for our Clients on a consistent basis. The re-rate process applies to assets already on loan where we will agree with the borrower to revise the previously agreed lending fee.

3.5. SPECIFIC SITUATIONS

SIZE OF THE ORDER

Where the size of an order is larger than the size offered by the counterparty providing the best price following a request for quotes, the optimal approach for achieving the best possible execution may consist in selecting the Authorised Provider who is able to execute the entire order,

² Whether under MIFID II SI regime or not, i.e. including some cleared derivatives tradable on execution venues.

³ ex AXA IM IF perimeter

even though the price obtained may be less favourable than the one that could have been obtained for a portion of the amount desired. The dealer will then prioritise the criterion relating to liquidity rather than the sole price criterion.

As a general rule, the dealer seeks to trade with intermediaries which have historically offered the best terms for these types of transactions. In some cases, the dealer may base the choice on the ability of the counterparty to manage the impact of the order on the market, as a higher priority than the costs of the transaction.

LESS LIQUID PRODUCTS

For financial instrument with limited market and/or limited liquidity and/or limited price transparency, the execution criteria ranking may change, swiftness or likelihood of execution becoming the dominant criterion.

ABNORMAL MARKET CONDITIONS AND FORCE MAJEURE

In the case of severe market turbulence, the ability to execute the order on a timely basis, or simply to execute it, will become the primary factor.

In case of major difficulty in the order execution such as a case of internal or external system failure assimilated to a force majeure event, BNPP AM might not be able to execute the order in accordance with this Policy. In these particular cases, each time it is reasonably possible, BNPP AM would activate its back-up solutions in accordance with its internal procedures.

AGGREGATION OF ORDERS

BNPP AM may aggregate orders where circumstances authorize it (same security, direction, order type...) and where it is unlikely that aggregation may trigger an overall disadvantage for any client whose orders is to be aggregated.

Where the orders are partially executed, BNPP AM will allocate the amount on a prorata basis to the extent where it isn't against the interest of portfolio(s). In exceptional circumstances where a pro-rata allocation would be done to the detriment of one portfolio, BNPP AM will seek the solution that best balances the interests of all the portfolios involved.

INTERNAL CROSSING

BNPP AM may take advantage of crossing opportunities, where permitted by the client and/or local regulation. Care is taken to ensure the best average execution price for all parties. Internal crossing is subject to Compliance oversight and approval (as required).

INVESTMENT VEHICLES

When it comes to investing into another investment vehicle with multiple units/share classes (either managed by a BNP Paribas Group entity or an external entity), as long as the unit or share class has characteristics (excluding fees) comparable with those of other unit(s) or share class(es) of the targeted fund, the rule is

- (i) to invest into the unit/share class offering the lowest fare for the subscription, redemption and management fees and
- (ii) to monitor the holding in those units or share classes over time so that the investment continues to be in the best interest of the end-investors.

PRIMARY AND SECONDARY PLACEMENT

Allocation of primary and secondary placement must be fair according to regulatory rules and principles.

- ▶ Fund managers:
 - are required to indicate in advance the allocation of orders for each fund or mandate.
 - are not allowed to place speculative primary and secondary placement orders that would breach the investment guidelines if the whole application were granted.
- ▶ For US clients and for clients with any delegation of dealing to a US entity, trading primary and secondary placement through affiliate companies is not authorised.

RESTRICTIONS

Whenever BNPP AM is subject to internal or external restrictions on trading of financial instruments, it can decide not to transmit or execute an order that was planned in the framework of its asset management activities or its discretionary portfolio management.

3.6. CONFLICTS OF INTERESTS MITIGATION

The portfolio management systems of BNPP AM require that transactions created by portfolio managers are allocated on a pre-trade basis. The tools used by BNPP AM record the time of creation, transmission and execution of orders.

BNPP AM requires executed transactions to be allocated fairly among portfolios. Where orders are partially filled, allocations are made on a pro-rata basis, unless there are valid reasons not to, for example if the application of a pro-rata basis results in an uneconomic allocation. In these cases, the final methodology of allocation and the rationale for it must be recorded, and these allocations are subject to Compliance review (unless subject to agreed automated methodology).

Where authorised by regulations, BNPP AM and BNPP Dealing Services may deal with affiliates of BNP Paribas Group.. BNPP AM will ensure it reports transactions with affiliate companies upon client's request and if required under the rules regarding potential conflicts of interest.

The employees of BNPP AM are not allowed to offer or accept any gift or entertainment exceeding a certain threshold without receiving the prior approval of their manager and in certain cases the Compliance function. This process is strictly controlled.

Other requirements:

BNPP AM entities must not receive any remuneration, discount, or non-monetary benefit for routing clients' orders to a particular trading venue or Execution Venue and, structure or charge their commissions in such way as to discriminate unfairly between Execution venues.

4. CONTROL FRAMEWORK OF THE POLICY APPLICATION

4.1. OBJECTIVES OF THE EXECUTION CONTROL FRAMEWORK

BNPP AM implements an ongoing monitoring of the effective application of this Policy and makes sure it gives the necessary guidelines to act in the clients' best interests. Execution control covers all transactions initiated by BNPP AM whether execution is negotiated by:

- GTF through BNPP Dealing Services, or by delegation to a BNPP AM entity
- A portfolio manager trader ("PMT") within a BNPP AM entity.

The objectives of the execution control framework are the following:

- ▶ Making sure that this selection and execution Policy is applied,
- ▶ Promptly correcting observed failure,
- ▶ Facilitating the review of the Policy and anticipating a review of this Policy if there is a significant change likely to have an impact on the ability to obtain the best possible result for the client.

4.2. SCOPE OF RESPONSIBILITIES

MiFID II requires that BNPP AM to perform controls on a regular basis the effective application of the Policy.

GTF or any PM Trading team performing execution is responsible for 1st level of controls.

Additionally, BNPP AM as the client of BNPP Dealing Services' for RTOE service provision (see Section 3.1) is responsible for controlling the right application of the Policy.

Second level of controls and Independent Testing are performed by second line of defense

5. POLICY REVIEW

5.1. FREQUENCY OF REVIEW

In the absence of any internal or external major event requiring an earlier update, the Policy is reviewed at least annually.

5.2. RESPONSIBILITY AND TERMS OF REVIEW

The definition of the selection and execution principles included in this Policy is primarily the responsibility of BNPP AM. The Investment teams are in charge of issuing and updating the Policy. During the review, the Policy principles or its detailed terms (execution criteria, control framework) should be confirmed or modified.

Hereunder are some non-limitative examples of situations that would trigger an anticipated review of the Policy:

- ▶ Reporting of major gaps compared to initial objectives, during controls made by portfolio management, GTF or Compliance function or highlighted in an Internal Control Committee.
- ▶ Occurrence of the following events:
 - New principles or processes for selecting execution intermediaries,
 - New investments process within BNPP AM,
 - New financial instruments among the investment universe.

5.3. COMMUNICATION OF UPDATES

In case of significant changes in the Policy, clients must be informed.

Each time the Policy is modified, a new version is published on the website of BNPP AM entities in-scope of the Policy and is therefore considered as applicable.

Regarding discretionary portfolio management services provided to institutional clients, this Policy deems to be an integrant part of the contractual framework with BNPP AM. Therefore, BNPP AM should get clients' consent on the possibility to execute orders outside of a trading venue. Any specific instruction linked to the execution of the transactions that would diverge from or complement this Policy should be r

ANNEXE 1 : TRADING VENUES

Name	MIC	Asset Class
APPITAL	TRQX /TQEX	Equity
BIDFX		Forex
BIDS Trader (sweeper)	BIDS	Equity
Bloomberg EMSX (RFQE)	BTFE	ETF (on-venue BTFE when traded in France)/ Futures et Options (off-venue traded in RFQE)
Bloomberg FXGO	BTBS	Term Deposits
Bloomberg TSOX	BTFE	Bonds / OTCDer / T-Bills / Repo / Reverse Repo
Bloomberg TSOX (BOLT)	BTFE	IRS
DirectBooks		Bonds
FXAll	FXAL	FX
GLMX	GLMX	Repo / Reverse Repo
Liquidnet Equity (sweeper)	LNEQ	Equity
Liquidnet Fixed Income (sweeper)	LNFI	Bonds
MarketAxess	MANL	Bonds
Portware		Equity/ETD / ETF
Posit dark / ex Virtu (Sweeper)	XPOS	Equity
Posit dark UK / ex Virtu (Sweeper)	XPOL	Equity
TradeWeb	TREU	Bonds/ETF/OTCDer/Repo/T-Bills / ETF
RFQHUB	RFQN (MANL)	ETF /Listed derivatives
MTS Bondvision	SSOB	Bonds
Equilend	EQIE	Securities lending
TradingScreen		Equities, Listed Derivatives