

BNP PARIBAS ASSET MANAGEMENT France, Netherlands Branch

Selection and Execution Policy



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BNP PARIBAS
ASSET MANAGEMENT

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1. INTRODUCTION

1.1. PURPOSE OF THIS POLICY

This Selection and Execution Policy ("Policy") describes the measures implemented by **BNP PARIBAS ASSET MANAGEMENT France, Netherlands Branch** ("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" being construed as encompassing both brokers and counterparties.

BNPP AM has defined a strict procedure whereby portfolio management teams, Compliance, Risk, Legal, Operations 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:

- ▶ **CIO Business Reviews ("CBR")** are held bi-annually with the participation of each of the 3 main BNPP AM Chief Investment Officers (Fundamental Active Equity ("FAE"), Global Fixed Income ("GFI") and Multi Assets Quantitative and Solutions ("MAQS")) and GTF representatives; those reviews aim inter alia at sharing quantitative information and qualitative assessment on intermediaries, including intermediaries' execution performance and at identifying possible requests for reviewing the list of selected intermediaries.
- ▶ **A Global Sell Side Committee ("GSSC")** is held bi-annually. Covering both execution intermediaries and research providers used by all BNPP AM entities part of the integrated perimeter, the GSSC reviews quantitative information, such as volumes, and the qualitative assessment of service from the intermediaries. It validates the main evolutions on the list of intermediaries and can raise remarkable topics to Risk or Compliance departments who attend this committee.
- ▶ **Brokers reviews** with the main 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 departments 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 vary based on the asset class to be traded with or through the intermediary, but the overall approval process is applied in the same manner across all asset classes. Several criteria are taken into account to perform a global assessment of execution intermediaries' performance:

- ▶ 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.
- ▶ 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' reliability is also performed on indicators relating to their good standing and reputation (registration, financial situation, anti-money laundering measures, financing of terrorism and compliance with international sanctions, sanctions from regulators,... which is 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 Legal and Risk teams:

- ▶ 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 national standard market agreement if conditions are met.
- ▶ The Credit Risk team monitors funds regulatory ratios (e.g. concentration and diversification) and counterparty exposures at fund, mandate and global levels.

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 of criteria of selection of research providers which are distinct from those applied for selecting execution intermediaries does not however preclude BNPP AM to select certain 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 moment 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 on 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 a majority of 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 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 other BNPP AM entities, 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, and subject to validation by BNPP AM management, the Risk and Compliance teams, the trading with approved intermediaries may be conducted directly by the portfolio manager for a number of transactions. 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 places the order in the front office tool must be different from the portfolio manager who carries it out (4-eyes control),
- Front office access rights must be granted according to the investment team's organization.

3.2. EXECUTION VENUES

Only BNPP AM entities with relevant regulatory permissions may execute orders on trading venues defined by MIFID II (encompassing Regulated Markets, Multilateral Trading Facilities, and Organised Trading Facilities)

These entities may operate on different execution venues which include:

- Trading venues: Regulated Markets (RM), Multilateral Trading Facilities (MTF), Organised Trading Facilities (OTF);
- Systematic Internalisers (SI - principal traders and market makers);
- Over-the-counter (OTC) markets;
- Other counterparties acting as liquidity providers.

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, 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) even if such instructions differ from the provisions of BNPP AM Policy. 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.
 - A client giving a discretionary mandate to BNPP AM is entitled to communicate a ranked list of approved execution intermediaries with objectives in terms of allocations of volumes or participation to requests for quotes: the selection of the execution intermediary will occur depending on the distance from the targets as a subsidiary criterion that will apply to differentiate execution intermediaries offering the similar execution conditions

3.4. DESCRIPTION OF THE BEST EXECUTION CRITERIA

For each order type, BNPP AM ranks the 7 factors outlined in MIFID II Delegated Acts C (2016) 2398 (Recitals 101, 107 and Article 66):

- Price
- Cost
- Speed
- Likelihood of execution and settlement
- Size
- Nature
- Other (qualitative) criteria

While price, speed and size 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. BNPP AM has chosen to rank the execution factors to allow a more accurate assessment.

According to the BNPP AM Policy, the price is the overall dominant best execution factor. In addition, depending on the order type relevant for the considered asset class, the following criteria are also applied:

- ▶ For Equities, the speed of execution is also an important criterion as some orders need to be filled in the shortest possible time to avoid a possible adverse impact on the price due to volatile market conditions (market order for instance). For example, a portfolio manager may want to buy a share following good earnings announcement. In this situation, the portfolio manager would aim at executing its order quickly in order to capture as much as possible of the anticipated upside move.
- ▶ In Fixed Income, the likelihood of execution plays an important role as in some cases the order represents a significant portion of the market size. In the case where all portfolios have to be rebalanced simultaneously, it is paramount to execute the full quantity to ensure all portfolios have the same market exposure following the rebalancing exercise.
- ▶ Regarding OTC derivatives, other criteria such as counterparty risk, liquidity or ability to structure complex products are also taken into account. With respect to the price criterion, the request for quotes is likely to identify the best available price. A record of the quotes obtained through the request for quotes is kept. It is however, worth noting that in some parts of the OTC market, it is not unlikely or unadapt to ask and/or obtain a single quote, in particular in case of innovative, illiquid, customised, complex products or products requiring specific structuring capabilities, this framework including, in particular, formula-based FCPE.

As highlighted in Article 27 of MIFID II and irrespective of the criteria described above, the dominant best execution criterion for non-professional BNPP AM clients is the total cost of acquisition or disposal.

3.5. SPECIFIC SITUATIONS

SIZE OF THE ORDER

Where the size of the order is above normal market size, the trader or the portfolio Manager in charge of negotiating the conditions of execution shall have the following approach:

- ▶ The optimal way to achieve best execution may be to request a price from a single counterparty and manage execution accordingly, even if such execution price is inferior to the price referred to in other market indications of interest.
- ▶ Alternatively, quotes may be asked without specifying the trade's size for price discovery. Based on the results, negotiations with counterparties offering the best prices can then be opened. The records of the counterparties, quotes and trade sizes are kept.

The trader seeks to trade with counterpart that have historically offered the best terms for these types of transactions or who advertises Indication of Interest / Axes to the traders. In some cases, the trader can base the choice on the ability of the counterparty to manage the impact of the order on the market, as a higher priority with respect to 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, speed 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

Except in cases whereby client restrictions can prevent aggregation of orders are in force, BNPP AM will be entitled to aggregate orders where it is unlikely that aggregation will trigger an overall disadvantage for any client whose orders is to be aggregated. However, the effect of aggregation may be detrimental to a client if a particular order is considered.

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 approval and oversight.

PRIMARY AND SECONDARY PLACEMENT

Allocation of primary and secondary placement must be fair according to regulatory rules and principles, and the BNPP AM allocation policy.

- ▶ 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.

TRADING LIMITS MANAGEMENT FOR OTC DERIVATIVES

The trader or the portfolio manager may not be authorized to select the counterpart offering the best price or value for a given order should the trading limits for a given fund or mandate be insufficient to validate the transaction.

SECURITIES LENDING

Regarding securities lending, BNPP AM may use a limited number of counterparties including BNP Paribas SA acting either as principal or as agent in front of approved counterparties to benefit from a size effect on the market.

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 trade allocation policy 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 (if not subject to agreed automated methodology).

Where authorised by regulations, BNPP AM and BNPP Dealing Services may deal with affiliates of BNP Paribas Group or through an exchange where an affiliate has a membership. 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 give or accept any gift or entertainment exceeding a certain threshold without receiving the prior approval of the Compliance department. This process is strictly controlled.

Other requirements:

BNPP AM entities must not, on the one hand, receive any remuneration, discount or non-monetary benefit for routing clients orders to a particular trading venue or Execution Venue and, on the other hand, 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, 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 controls on a regular basis the effective application of the Policy.

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

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

Compliance department is responsible for second level of controls.

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 Compliance department is 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 department or highlighted in an Internal Control Committee.
- ▶ Occurrence of the following events:
 - New principles or processes for selecting execution intermediaries,
 - New investments process among 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 covered by 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 client's 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 recorded.