



Best Selection and Execution Policy of KBC Asset Management Group

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1. Introduction

The Best Selection and Execution Policy ('the Policy') is the result of the KBC Asset Management Group's (i.e. the corporate group of which KBC Asset Management NV is the top holding, and hereinafter referred to as "KBC AM Group"), general and continuous striving to at all times act in the best interest of its clients and execute their orders in a fair, just and timely manner.

All principles imposed through this Policy comply with the legal requirements of the relevant provisions on best execution. The said requirements are included in:

- Directive 2014/65/EU (MiFID II Level 1) and Commission Delegated Regulation 2017/565 (MiFID II Level 2);
- Directive 2009/65/EC (UCITS) and Commission Delegated Directive 2010/43/EU (UCITS Level 2); and
- Directive 2011/61/EU (AIFMD) and Commission Delegated Regulation (EU) No 231/2013 (AIFMD Level 2).

KBC AM NV will make this Policy available through its website (www.kbc.be) and in case of local entities via their own website where it may be consulted by both clients for discretionary investment management and end-investors of undertakings for collective investment for which the KBC AM Group executes transaction orders.

The KBC AM Group will notify its clients through its websites of any material changes to this Policy or their order execution arrangements. By receiving this Policy, the client agrees that updates to the Policy may be communicated through the website www.kbc.be.

2. Scope of application

As licensed asset management companies, KBC AM Group entities are authorised to provide portfolio management services to undertakings for collective investment. On an ancillary basis, the concerned entities may also provide the investment service of discretionary portfolio management.

The Policy hence applies when the KBC AM Group executes transactions on behalf of the following clients:

- Both retail and professional clients for discretionary portfolio management;
- Undertakings for collective investment (both UCITS and non-UCITS funds) for which any of the KBC AM Group entities is the appointed management company;
- Undertakings for collective investment for which none of the KBC AM Group entities are the appointed management company, but for which the KBC AM Group, among others, provides order execution services.

This Policy applies to all financial instruments for which a KBC AM Group entity executes transactions on behalf of its clients, either directly on an execution venue or indirectly via selecting a professional counterparty for the execution, and including, but not limited to equity, bonds, money-market instruments, units in collective investment undertakings, derivatives (listed and unlisted).

This Policy will apply in the absence of any specific instructions by the client (see *infra*, point 3.1.2.).

3. KBC AM Group approach to best execution

KBC AM Group either executes orders itself and applies the best execution principles described in “3.1 Elements of best execution”, or transmits the orders to a counterparty selected in accordance with “3.2 Counterparty selection”.

3.1. Elements of best execution

3.1.1 General provisions

The KBC AM Group will take all sufficient steps to obtain the best results possible for the client, hereinafter referred to as best execution. Taking sufficient steps does not imply that the best possible result is obtained on every single occasion, but means that the KBC AM Group verifies on an on-going basis that the arrangements described in this policy work well throughout the different stages of the order execution process. The KBC AM Group will not structure or charge its commissions in such a way that it discriminates unfairly between execution venues.

In general, the KBC AM Group will take into account the following factors to establish best execution:

- Price;
- Speed;
- Likelihood of execution;
- Size;
- Likelihood of settlement;
- Costs; and
- Other aspects of the order.

Price: this refers to the resulting price of the transaction. It is often seen as the primary factor to determine Best Execution, however the following factors can be equally important, depending on the order/client.

Speed: processing large orders may have a negative impact on the price of a transaction. For that reason large orders may be split into multiple smaller orders. Speed needs therefore be interpreted as the rate at which an order is worked in the market. We will progress at a rate which represents a balance between minimising market impact and having the order executed in a timely fashion as to reduce execution risk.

Likelihood of execution/size: this can be interpreted as the likelihood an order is fully executed, or at least a substantial part of it. This factor increases in importance where access to liquidity in the relevant instrument is constrained in some way, either due to the illiquid nature of the security itself or an order instruction which is not marketable.

Likelihood of settlement: in general, securities settle as instructed. However, in an exceptional case, when this might not happen, we may choose an alternative approach even if it would not result in a better price.

Costs: these relate to commissions charged when executing an order.

To determine the relative importance of each of those factors, the KBC AM Group will take into account the following criteria:

- The characteristics of the client. For undertakings for collective investment, these characteristics comprise the undertaking's investment objectives and policy as included in its prospectus and/or articles of association or management rules. With respect to the execution of orders for clients for discretionary portfolio management, the KBC AM Group determines best execution to be primarily driven by "total consideration". Total consideration includes both the price of the financial instrument, and the costs related to the transaction's execution. These costs will include all expenses, incurred by the client, which are directly related to the execution of the order;
- The characteristics of the client order;
- The characteristics of the financial instruments involved; and
- The characteristics of the execution venue to which the order can be directed. When there is more than one competing venue with sufficient liquidity to execute an order, the KBC AM Group will take all commissions and costs that are charged to the client, in account for the purpose of assessing the order's best execution.

3.1.2 Instructions by the client

When the client gives specific instructions¹ relating to the execution of an order, for example the indication of an execution venue, KBC AM Group will handle that order in accordance with this specific instruction.

Whenever the KBC AM Group executes an order or a specific aspect of an order following specific instructions from the client, for example the indication of an execution venue, KBC AM Group will be deemed to have taken all reasonable steps to obtain best execution for all other factors of the order and has consequently fulfilled all legal obligations concerning best execution vis-à-vis said client.

Clients should, however, take into account that any specific instruction may prevent the KBC AM Group from taking the steps that it has designed and implemented to obtain the best possible result for the execution of those orders in respect of the elements covered by those orders.

¹ When the customer fixes one factor of its order (like price, time, execution venue), this order will be considered as been given under specific instructions.

3.2 Best selection

3.2.1 General provisions

KBC AM Group takes all reasonable steps to obtain the best results when selecting execution venues and intermediary entities such as brokers and OTC counterparties (hereinafter referred to as “counterparties”). In this selection, the KBC AM Group relies on qualitative factors, such as, but not limited to:

- The characteristics of the execution venue through which the order is executed;
- The quality of trade settlement, clearing and delivery;
- The speed of trade confirmation;
- The quality of the counterparty’s trading tools;
- The quality of execution, including access to execution venues.

The KBC AM Group only selects execution venues and counterparties that have mechanisms for the execution of orders which enable those entities to obtain best execution. To that extent, entities must apply a best execution policy that enables the entity to obtain the best possible result when executing the KBC AM Group orders.

With the exception of acceptable minor non-monetary benefits, the KBC AM Group does not accept the receipt of inducements from its counterparties and selected execution venues (e.g. pay-for-order). A counterparty’s research quality is not taken into account for the selection of counterparties with respect to the execution of orders. For that purpose, the KBC AM Group has established a separate and independent procedure for the selection of research providers.

3.2.2 Counterparty selection

When the client order is transmitted for execution to a counterparty, or when a transaction is directly executed with the counterparty, the KBC AM Group only works with a selection of counterparties. These counterparties are proposed to and approved by the Financial Risk Committee of the KBC AM Group’s top holding company, i.e. KBC Asset Management NV. The counterparty list is discussed at the Financial Risk Committee at least every six months. If important issues arise, ad hoc discussions are scheduled.

The Financial Risk Committee has, in accordance with the Counterparty Procedures for Equity, Bonds and Structured Products² of the KBC AM Group, as a task to:

- Analyse and select counterparties;
- Approve counterparty lists for equity, bonds and structured products;
- Conduct a six-monthly review of counterparties; and
- Remove counterparties from the counterparty lists e.g. in case of underperformance

The KBC AM Group transmits orders only to those counterparties which feature on the counterparty lists for equity, bonds and structured products that are approved by the Financial Risk Committee.

The KBC AM Group has determined different sets of criteria for selecting counterparties in the Counterparty Procedures for Equity, Bonds and Structured Products.

² For the avoidance of doubt, counterparties for structured products are counterparties used by the KBC AM Group with the aim to conclude derivatives transactions.

Every six months, the KBC AM Group will organise a thorough review of each counterparty on the three counterparty lists. The methodology and the criteria for this review are described in the internal Counterparty Procedures for Equity, Bonds and Structured Products.

3.2.3 Execution Venues

3.2.3.1 Execution venue selection

Orders of funds may be executed on regulated execution venues such as regulated markets, multilateral trading facilities (MTF) and systematic internalisers (SI)

In selecting the execution venues, the KBC AM Group takes into account the following criteria:

- The liquidity that is available through the execution venue;
- The counterparties that are active through the execution venue;
- The execution venue's trading protocols; and
- The availability of trading analytics.

The KBC AM Group puts significant reliance on the following execution venues:

- Tradeweb;
- Bloomberg;
- MarketAxess; and
- FXAll

3.2.3.2 Execution outside of a regulated market, MTF, OTF or SI

or, if such execution is in the best interest of the fund, outside of a regulated execution venue, i.e. through the over-the-counter market. With respect to transactions executed on behalf of clients for discretionary portfolio management, and concerning financial instruments that are traded on a regulated execution venue, the KBC AM Group will obtain prior and express consent of the client before executing a transaction outside of the regulated execution venue. Unless otherwise indicated by the client, such express consent is deemed present with respect to the execution of transactions in fixed income instruments, such as bonds and money market instruments.

Although an execution outside of a regulated execution venue may provide for an improved execution price and faster execution, the following main risks may be incurred:

- Transactions that are not executed on a regulated execution venue are subject to a counterparty risk that is not mitigated by the clearing and settlement rules of a regulated execution venue.
- Transactions will not be subject to the rules of regulated execution venues, which are designed to provide a fair and orderly treatment of orders.
- Transactions executed outside of a regulated execution venue will not benefit from the liquidity that is available on such venues.

4. Best Execution per class of financial instruments

For each class of financial instruments, the KBC AM Group defines the key execution factors that will be taken into account when executing orders, or when placing orders for execution in order to choose the counterparty that best suits its requirements.

Preliminary remarks

- a) The principles described in this Policy do not restrict KBC AM Group to act otherwise in case it considers that the order might not be executed in a way that the best possible result for the client is obtained.
- b) In case of an emergency, such as a disruption of the order management and/or the execution management system, KBC AM Group may not be in the possibility to execute the order according to the described methods. In these exceptional circumstances, KBC AM Group will endeavour to execute the orders in the most advantageous way under the prevailing circumstances.
- c) If only one venue of execution exists, best execution is realised when executing the order in said venue of execution.

4.1. Equity, warrants and rights

4.1.1. Single listed equity, warrants and rights

If equities, warrants and rights are admitted to trading on a regulated market or MTF, best execution will be realised when execution occurs on the concerned regulated market or MTF. If advantageous to the client, KBC AM Group may also execute the transaction through a systematic internaliser, and thus outside of the regulated market or MTF.

4.1.2. Multiple listed equity, warrants and rights

When clients wish to transact in equities, warrants and rights which are admitted to trading on multiple regulated markets and/or MTFs, the KBC AM Group will assume that its clients are especially interested in obtaining the best possible price, taking into account all costs connected to the execution of the order. Two other important criteria that the KBC AM Group will take into account are liquidity and speed and the quality of settlement of the order. However, when the liquidity of the equity, warrant or right concerned is significantly higher on another market and the total price (taking into account the costs) is not unfavourable for the client, the KBC AM Group will instruct to execute the order on said market.

As is the case for single listed equities, warrants and rights, the KBC AM Group may execute the transaction through a systematic internaliser if such execution is to the client's advantage.

Should the selected venue be closed at the time the order is received, the order will be transmitted to that venue and will remain at least unexecuted until this venue opens. Limit orders will remain on the selected venue for execution. Changes with respect to the execution venue made by the client after the order has been transmitted to a venue, will not be taken into account.

4.1.3. Internal crosses

Unless expressly authorized by the Compliance department of the concerned KBC AM Group entity, the internalised and direct execution of a transaction between two or more client portfolios, without intervention by a counterparty, also referred to as “internal crosses”, is prohibited for equities, warrants and rights.

4.2. Bonds, money-market instruments and SPV notes

4.2.1. Bonds

For bonds which are admitted to trading on multiple regulated markets and/or MTFs, the KBC AM Group will determine the execution venue in the same manner as for multiple listed securities (point 4.1.2). For unlisted bonds or listed bonds where the OTC markets offers improved liquidity, KBC AM Group has put a process in place in order to achieve best execution on a consistent basis.

With the exception of new bond issuances on the primary market, all orders concerning bonds are executed through the “Request For Quote”, hereinafter referred to as “RFQ”, process. Further details on the process are provided below.

Pre trade

Prior to execute the trade, an analysis is made on the available market- and internal data with the aim to determine a fair price for the instrument.

Additionally only a limited number of counterparties are selected for the request for quote to avoid negative market impact.

Trade

The number of counterparties to be inquired depends on the size and characteristics of the order relative to market liquidity. The higher the expected market impact of the order, the less counterparties will be involved in the request for quote (RFQ).

Multiple execution venues and trading protocols exist (voice RFQ, MTF RFQ, all-to-all RFQ...). The dealer will select the venue and protocol which is believed to have the highest success rate in delivering best execution based on the characteristics and size of the transaction.

Post trade

Relevant data with regards to the RFQ will be stored and used for several types of analysis. Post-trade analysis results will be used to strengthen the pre-trade selection procedure and verify on an on-going basis the best execution process in place.

4.2.2. Money-market instruments

Money-market instruments include financial instruments such as commercial paper and term deposits. The price of a money-market instrument is usually comparable for various counterparties: little or no deviation in price exists. For this reason, the KBC AM Group will take into account other factors, such as counterparty exposure, efficiency and post-trade processing, as well.

4.2.3. SPV notes managed by KBC AM NV

SPV notes, managed by KBC AM NV, are fixed-income instruments issued by public or private companies investing in a diversified portfolio of international bonds and money market instruments. In general, these SPV notes are listed on the Irish stock exchange. Given the specific nature of these instruments, the KBC AM Group does not request counterparties to provide quotes. Orders are executed using the last available price of these SPV notes which is determined daily on a mark-to-market basis in accordance with a methodology evaluated by the Pricing and Valuation Committee of KBC AM NV.

4.2.4. Internal crosses

Internal crosses for bonds, commercial paper and SPV notes managed by KBC AM NV allow for cost reduction to the benefit of clients. Therefore, unless prohibited by law, internal crosses for bonds, commercial paper and SPV notes are allowed if the following conditions are fulfilled:

- The internal cross is opportune for both portfolios concerned.
- The execution benchmark is unbiased between buying and selling party. The execution benchmark can either be the end-of-day mid closing price as this is an unknown and unbiased price or for more illiquid securities, a reference price will be checked with market participants by among other things taking into account indicative prices and axes.
- The internal cross is in line with the best execution requirements as described in this Policy.

4.3. Cash and term deposits

Choice of cash deposit bank or term deposit bank is made while adopting a risk-return approach. Portfolio managers are required to evaluate whether returns are standard market prices.

Although the regulatory framework with respect to best execution does not apply to spot foreign exchange transactions, the KBC AM Group takes all necessary measures to act in the best interest of its clients and to offer fair services to all clients. With that aim, KBC AM Group has installed procedures and controls on best execution and best selection for foreign exchange transactions.

4.4. Funds

Preferably, the KBC AM Group will transmit orders in funds to the transfer agent of that fund, as this ensures a price that is generally the most advantageous in terms of costs.

For funds that are quoted on an execution venue, the KBC AM Group may choose to execute the order on said venue only if this would positively affect the execution conditions.

In case the transmission to a transfer agent would not be feasible or practical, the KBC AM Group will select an alternative method for the execution of the order, respecting the overarching principles of this Policy.

4.5. Listed Derivatives

Transactions in listed derivatives are always transmitted by KBC AM Group to a counterparty for execution. If a listed derivative is listed on one execution venue, the KBC AM Group will instruct a counterparty to execute the order on said venue.

If a listed derivative is listed on more than one execution venue, preference is given to the order's execution on the most liquid market. KBC AM Group's counterparty may however decide that the best possible outcome will be obtained through order execution on the less liquid market, provided that the total price of the transaction is not unfavourable for the client.

Internal crosses for listed derivatives are prohibited.

4.6. Unlisted Derivatives

Unlisted derivatives include options, swaps, notes and forward rate agreements and combinations thereof, relating to currencies, interest rates or yields and securities, financial indices and commodities. These instruments are not listed on execution venues and are traded over-the-counter ("OTC").

The KBC AM Group only uses counterparties which can fulfill the following conditions:

- The Selected Counterparties work on a tailor-made basis.
- They offer liquidity on all contracts at any moment.
- They offer high operational efficiency, which reduces the costs for the clients of the KBC AM Group.

The KBC AM Group achieves maximum price and cost transparency by confronting the prices of its Selected Counterparties with internal valuation models. Whenever the difference in pricing is too great, a quote from another Selected Counterparty is requested. Furthermore, the KBC AM Group takes into account the overall counterparty exposure as a determining factor in the order allocation. The pricing process is monitored by the Risk department of KBC AM NV.

4.7. Securities financing transactions

On the condition that the prospectus or agreement for discretionary portfolio management allows for such transaction, the KBC AM Group may conclude (reverse) repurchase agreements and/or enter into securities lending transactions.

Counterparties that are selected to enter into securities financing transactions must be either (a) credit institutions, (b) investment firms, (c) clearing or settlement firms or (d) central banking organisations.

Best execution in relation to securities financing transactions is primarily determined by the securities lending fee and the interest rate underlying to the respective securities lending and (reverse) repurchase agreement transaction. Specifically with respect to securities lending transactions, only direct and indirect costs may be deducted from the securities lending proceeds. The KBC AM Group applies a flat rate in order to determine such costs.

5. Monitoring and review

The principles of this Policy are incorporated in the organisation, processes and systems of the KBC AM Group. The Compliance department of the KBC AM Group top holding, KBC Asset Management NV, organises periodical ex-post monitoring on the application of said principles, as described under point 3.2.1 of this Policy.

The KBC AM Group will review this Policy at least on a yearly basis and update it whenever necessary. Updates may occur in case of:

- a) Changes in legislation;
- b) Changes in business activities of the KBC AM Group or services provided by the KBC AM Group;
- c) Organisational changes within the KBC AM Group; and/or
- d) New internal rules, procedures or policies within the KBC AM Group.

This list is not exhaustive. Updates of the Policy will be submitted to the Executive Committees of all KBC AM Group entities for approval. The KBC AM Group entities will keep records of the previous versions of the Policy for at least five years.

6. Additional information

If clients require more information on this Policy or any other aspect of best execution, including the counterparties with whom transactions were executed, they may contact their KBC AM Group entity via their relationship manager.

The KBC AM Group will demonstrate to its clients, at their request, that it has executed an order in accordance with this Policy.