ORDER EXECUTION POLICY

SOCIETE GENERALE BANK & TRUST

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SOCIETE GENERALE

Introduction

The Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014, in effect since 3 January 2018 on Markets in Financial Instruments and amending Directive 2011/61/EU and Directive 2002/92/EC (hereafter MiFID II), strengthened the rules of good conduct applicable to financial intermediaries.

The obligation of "Best Execution" constitutes one of the pillars of this regulation.

For the Bank, it means taking all reasonable measured to obtain the best possible outcome in executing its clients' orders.

Societe Generale Bank & Trust Luxembourg (hereafter SGBT) plans to meet its "Best Execution" obligation by formalising a set of rules, set forth in this policy.

The Best Execution obligation applies to all financial instruments appearing on the detailed list in Point 4 of the glossary, taken from the "LSF" (Luxembourg Financial Sector Act). However, given that these financial instruments vary substantially in terms of standardisation, liquidity or number of possible places of execution, the implementation of this obligation at SGBT has been adapted to the features of each financial instrument and the type of transaction the client wishes to execute.

SGBT also takes into consideration a set of criteria described below of which, in addition to the execution price of the client's order, the overall cost of the transaction, speed of execution, size, nature and specific characteristics of the order, and probability of execution.

The principle of "Best Execution" applies to all retail and professional clients. The obligation of "Best Execution", however, only applies to clients classified as eligible counterparties.

It should be considered as an obligation of means and not a performance obligation for each individual transaction. At its clients' request, the Bank may nevertheless provide any information necessary to demonstrate that it has complied with its "Best Execution" obligation.

HANDLING OF SPECIAL INSTRUCTIONS

Under the terms of the previously mentioned regulation, customers are advised that if they transmit an order containing a special instruction, such as a request to execute the order on a specific market, SGBT will not be able to apply the best execution policy as described below.

SGBT shall be deemed to have satisfied its best execution obligation to the extent that it executes an order, or a specific part of an order, according to the specific instructions of the customer.

SPECIAL CASE

Clients are notified that SGBT may end up executing orders in a listed financial instrument outside a regulated market, an MTF or an OTF. SGBT will exercise this option in accordance with the principles of Best Execution as described below.

Description of the “Best Execution” policy

In the interest of meeting its clients’ needs, SGBT offers a comprehensive range of services and execute orders in a broad panel of financial instruments.

SGBT may act as:

- an intermediary for the client, by providing order reception/transmission services for execution by a third party service provider,
- as a member of the Luxembourg Stock Exchange, for the listed securities on said Exchange for which it serves as the principal market,
- as a direct counterparty in very specific cases (e.g. forward foreign exchange transactions, swaps, creation of bespoke instruments).

1 I GENERAL PRINCIPLES GOVERNING THE EXECUTION OF FINANCIAL INSTRUMENTS

Depending on the type of financial instrument, the Bank will apply the following principles with a view to meeting its Best Execution obligation:

LISTED EQUITIES AND SIMILAR INSTRUMENTS

For orders in listed equities and similar instruments, the Bank prioritises the places of execution (Regulated markets or MTFs) on the principle of the most liquid market. When selling equities, for reasons associated with execution costs, the place of execution will be primarily determined according to the place of deposit of the instruments in question.

BONDS

The Bank considers that the places of execution given priority for bonds are over-the-counter (OTC) markets. The Bank nevertheless reserves the right to execute bond orders on a regulated market, an MTF or an OTF as long as the client is not placed at a disadvantage by doing so. Executing a bond order may be subject to the market liquidity criterion.

COLLECTIVE INVESTMENT UNDERTAKINGS

The places of execution prioritised by the Bank for Collective Investment Undertakings orders are the issuers of such instruments or their respective distribution channels. The speed of execution of these orders depends in particular on the NAV calculation, as provided for in the Fund Prospectus. For any order capping the price on Collective Investment Undertakings, the Bank reserves the right to place the order on a regulated market, an MTF or an OTF.

EXCHANGE TRADED FUNDS (ETFS)

Executing an order in vehicles such as ETFs or similar instruments may be subject to the market liquidity criterion. In such case, the Bank may execute client orders either on regulated markets or MTFs while applying the aforementioned order execution policy for equities, or on OTC markets, as long as the client is not placed at a disadvantage by doing so.

OTHER FINANCIAL INSTRUMENTS

The Best Execution principle shall be adapted to the features of the financial instrument in question. Compliance with Best Execution requirements may be more complex where the order involves instruments such as structured products or unlisted financial instruments in general.

Accordingly, for orders in structured products and unlisted derivatives, SGBT has established an open-architecture system to execute client orders in which it selects the lowest bidder via an RFP open to accredited counterparties, in accordance with a rigorous selection process.

However, for orders in unlisted derivatives and FX Targets amounting to less than €1m, as well as Interest Rate Swaps, SGBT relies on its parent company and the prices offered to its clients will depend exclusively on the price obtained for the hedging operations in question, for the following reasons:

- for IRS orders, considering the costs incurred due to clearing and collateralisation requirements (imposed by EMIR), i.e. constraints from which SGBT is exempt when conducting intragroup transactions, SGBT considers that it obtains the best possible outcome for the execution of client orders in the very large majority of cases by hedging these transactions with Societe Generale GA Paris;
- for small transactions in unlisted derivatives, carried out on OTC markets and whose size falls below the predefined limits, SGBT prioritises speed of execution, considering the risk of price fluctuations on the underlying instrument as a predominant factor in establishing the price obtained.

Similarly, SGBT may offer structured products to its clients on its own initiative. Where such distribution is carried out via a public offering, liable to represent an amount exceeding the predefined limit set in its risk policy, SGBT will only present products manufactured by its parent company and issued by a Societe Generale Group entity in the interest of ensuring that it can meet the client’s request while complying with its risk policy, which limits the maximum amount of SGBT’s exposure to a non-Group counterparty. In this specific case, SGBT implements the necessary measures to ensure that the features of the product present to the client satisfy prevailing market conditions.

2 I SGBT ACTS AS AN ORDER RECEPTION/TRANSMISSION PROVIDER

Order execution conditions may vary depending on the financial instrument and its specific characteristics, even where SGBT only acts as an intermediary.

Within the framework of its “Best Execution” obligations to its clients, SGBT promptly transmits client orders in the order of their arrival, unless the nature of the order or prevailing market conditions make it impossible or the client’s interests require the Bank to proceed otherwise.

SGBT exercises all expertise, due care, diligence in selecting and designating market members and counterparties to execute transactions. It assesses each member or counterparty’s expertise and reputation on the market, whether or not it belongs to the Societe Generale Group, and also examines its capability of ensuring the Best Execution of orders transmitted, within the meaning of this policy.

SGBT has selected market members/counterparties that are obligated by regulatory requirements to take all reasonable measures to obtain the best possible outcome in executing the client’s order, in accordance with the following criteria (by order of priority):

- Total cost – being defined as the price of the financial instrument, plus the various costs associated with executing the order, including fees and commissions specific to the place of execution, clearing and settlement fees, and any other charges paid to third parties participating in the order’s execution. SGBT’s pricing policy is established in such a way as to introduce no discrimination in the selection of market members/counterparties.

- Speed – the execution time should be as short as the product is standard and the market liquid.
- Probability of execution and order size – if a transaction contains non-standard features, including in particular being larger than usual for an order traded on a regulated market for the financial instrument in question for example, SGBT may recommend seeking a price liable to be outside the range for the market considered. In this specific case, the client’s order may not be executed as-is in the order book for said market.
- On some foreign markets, the security of transaction settlement may be prioritised to ensure the proper execution and settlement of the transaction. SGBT reserves the right, after duly notifying its clients, to discontinue the transmission/execution of an order, or the execution of an order on any market, place of execution or by any market member/counterparty that presents unwinding or settlement/delivery problems on a recurring basis.

In some circumstances, however, this order of priority is subject to change. Depending on market conditions, type of order, and in the interest of meeting its Best Execution obligation to its clients, SGBT may give priority to another criterion listed above. For example, total cost is not necessarily a determining factor, as in some cases the probability of execution is the most determining factor in processing an order. This is the case, for example, for a listed security on a regulated market, but where most transactions are usually executed over the counter.

Also, for unlisted structured products on a regulated market, MTF or OTF, secondary orders may only be executed with the product manufacturer, meaning there is only one place of execution. In this specific case, although SGBT executes due diligence to verify the coherence of the price offered by the counterparty and always follows any special instructions received from its client (notably in terms of price), it will only prioritise execution time as the sole criterion for assessing the Best Execution of the order received in consideration of prevailing market conditions.

For orders in units of collective investment undertakings, any subscriptions, redemptions or conversions of units carried out by SGBT for its clients directly or indirectly with a clearing agency shall be considered as meeting the criteria for Best Execution.

SELECTION OF MARKET MEMBERS AND COUNTERPARTIES

SGBT selects the market members and counterparties it works with based on criteria of financial solidity and reputation, taking into consideration their accreditation and capacity for access to liquidity. This accreditation process, at the initiative of the Head of the Trading Desk, is verified by the Risk and Compliance departments.

All of these factors, as well as the quality of services provided, are monitored by a special-purposes committee comprising the Head of the Trading Desk in charge of executing orders, *the Risk Department, Compliance Department, Operations Department and various representatives of the main business lines in the order execution chain (portfolio management teams, sales teams).*

The smooth operation of this Committee is a key element for the Bank with respect to its Best Execution obligation. Its role is to periodically review:

- *the credit standing of each broker or counterparty,*
- *business flows and quality of services provided.*

Description of the “Best Execution” policy

This analysis is based on qualitative and quantitative criteria, assessed for each broker or counterparty, on:

- *its rating, shareholding structure, size and financial structure of its balance sheet, the markets and conditions in which it operates, its accreditation and type of supervisory authority;*
- *its ability to meet applicable regulatory requirements;*
- *an internal rating voted by the various Committee members, on the quality of services provided (execution, research, transaction settlement) and price conditions;*
- *statistics on the volume of transactions and brokerage.*

This analysis may result in:

- *the broker/counterparty remaining on the list of authorised brokers/counterparties,*
- *the broker/counterparty being placed on a Watchlist or Blacklist,*
- *for new brokers/counterparties, in the broker/counterparty being added to the list of authorised brokers/counterparties (with a 6-month trial period, where applicable),*
- *in setting or updating limits on activities or at-risk brokers/counterparties.*

The relationship with a given broker or counterparty may be revised outside the predefined session, in the event of:

- *a significant change in services,*
- *or information suggesting a deterioration in the broker/counterparty’s financial position.*

The maximum risk limits and their use are verified by the Risk Department and may be suspended at any time, where the market member or counterparty is subject to a financial or other event liable to generate a major risk.

The list of principal authorised market members/counterparties and the list of principal markets on which they operate is provided in an appendix made available to clients at their request and/or available on SGBT’s website.

Where a given order, due to the specific nature of the transaction or the security in question, may not be executed by an authorised market member/counterparty on the list, SGBT may call on a market member/counterparty of its choosing to facilitate the order’s execution.

3 I SGBT ACTS AS A MEMBER OF THE LUXEMBOURG STOCK EXCHANGE

As such, and in the event SGBT transmits an order for one of its clients on this market, SGBT undertakes to register the order in the order book, taking into account any specific features of the order (e.g. a limit order), insofar as prevailing market conditions are compatible with the nature and size of the order.

As the client’s order is executed in the order book, the resulting outcome reflects the confrontation of buy or sell orders on the market at the time of the transaction’s transmission and execution.

4 I SGBT ACTS ON A PROPRIETARY BASIS WHEN EXECUTING A CLIENT’S ORDER

As such, and in the event SGBT transmits an order for one of its clients on this market, SGBT undertakes to register the order in the order book, taking into account any specific features of the order (e.g. a limit order), insofar as prevailing market conditions are compatible with the nature and size of the order.

As the client’s order is executed in the order book, the resulting outcome reflects the confrontation of buy or sell orders on the market at the time of the transaction’s transmission and execution.

- Price of the financial instrument – SGBT undertakes to provide a “fair” price, taking into consideration the specific market parameters and market conditions prevailing at the time the order is transmitted. To this end, SGBT has established the necessary resources to continuously access centres of expertise specialising in such transactions.
- Speed of execution
- Probability of execution and order size

Execution of transactions in these circumstances is also governed by internal standards described in Point 3 below.

Additional structural measures

SGBT has established structures and tools to process and monitor the settlement of orders executed for its clients in accordance with execution times practised on the market and/or set by regulations.

To this end, SGBT relies on support functions (notably the Back Office and IT Department) which are independent from the trading floor, are subject to controls by the Internal Audit and Risk Control departments, and whose procedures and operating methods are regularly reviewed to ensure that its clients receive the best possible quality of service.

Oversight and modification of the policy

SGBT reviews its execution policy once a year, as a general rule.[2]

SGBT will re-examine this execution policy in the event of a substantial modification liable to affect SGBT's ability to continue consistently obtaining the best possible outcome in executing client orders (e.g. creation of a new market succeeding very quickly in capturing a large portion of liquidity in the financial instruments traded for its clients or, conversely, in the event of a sudden loss of liquidity on a market in these same financial instruments).

SGBT will notify its clients of any substantial modification to its execution policy.

Client consent

Clients are informed of this "Best Execution" policy and any amendments thereto through communications addressed by the Bank to the client, or by any other means deemed appropriate by the Bank.

In the absence of objections submitted by the Client to the bank in writing within thirty calendar days of the date of transmission of this policy to the client, or if the client transmits an order after receiving the policy, SGBT will consider that the client has given consent on the policy.

Furthermore, the client expressly authorises SGBT to execute orders in financial instruments admitted to trading on a regulated market, an MTF or an OTF , outside said regulated market, MTF or OTF. In such case, until the transaction is settled, it will be subject to counterparty default risk. The Bank will take all reasonable measure to limit this risk during the counterparty selection process.

Glossary

"ORDER BOOK"

A collection of buy and sell orders placed on the market for a given instrument, used to compare supply and demand. The instrument's breakeven price is then calculated to maximise the number of transactions.

"ORDER EXECUTION FOR THIRD PARTIES"

Conclusion of buy or sell orders in one or more financial instruments for clients.

"SYSTEMATIC INTERNALISATION"

A credit institution or investment firm that frequently and systematically carries out proprietary trades in an organised manner when executing client orders outside a regulated market, an MTF or an OTF.

"FINANCIAL INSTRUMENTS"

- marketable securities,
- money market instruments,
- units of mutual funds,
- options, futures, swaps, forward rate agreements and any other derivatives contracts related to marketable securities, currencies, interest rates, returns or other derivatives, financial indices or financial measures that may be settled by physical delivery or in cash,
- options, futures, swaps, forward rate agreements and any other derivatives contracts related to commodities that may be settled in cash or settled in cash at the request of one of the parties (other than in the event of default or another incident triggering termination),
- options, future, swaps, forward rate agreements and any other derivatives contracts related to commodities that may be settled by physical delivery, provided that they are traded on a regulated market, an MTF or an OTF,
- options, futures, swaps, forwards and any other derivatives contracts related to commodities that may be settled by physical delivery, not referred to in Annex II, Section B, Point 6 of the Act of 5 April 1993 (as amended) on the financial sector, and not carried out for commercial reasons, containing characteristics of other derivative financial instruments, notably in that they are cleared and settled by recognised clearing houses or are subject to regular margin calls,
- derivatives used to transfer credit risks,
- financial contracts for differences,
- options, futures, swaps, forward rate agreements and any other derivatives contracts related to climate variables, freight costs, emissions permits or inflation rates or other official economic statistics that are required to be settled in cash or may be settled in cash at the request of one of the parties (other than in the event of default or another incident triggering termination), as well as any other derivatives contracts related to assets, rights, obligations, indices and measures, not referred to Annex II, Section B of the Act of 5 April 1993 (as amended) on the financial sector, containing characteristics of other derivative financial instruments, notably in that they are traded on a regulated market, an MTF or an OTF, are cleared and settled by recognised clearing houses or are subject to regular margin calls.

"MONEY MARKET INSTRUMENTS"

Categories of instruments usually traded on the money market such as treasury notes, certificates of deposit and treasury bills (excluding payment instruments).

«EXCHANGE TRADED FUND (ETF)»

An ETF (or Tracker) is a listed index UCITS. The purpose of the UCITS is to replicate the performance of a market index, which may be an equity, bond or commodity index.

"PLACE OF EXECUTION"

A regulated market, MTF, OTF, systematic internaliser, market maker or other liquidity provider, or an entity performing similar tasks as one of the aforementioned places of execution in a non-European Union country.

Glossaire

"REGULATED MARKET"

A multilateral system operated and/or managed by a market operator, which organises or facilitates the meeting – within its own system and in accordance with non-discretionary rules – of multiple buy and sell orders for financial instruments submitted by third parties, resulting in the conclusion of agreement on financial instruments admitted to trading in accordance with its rules or systems, and which is accredited, subject to regulation by independent authorities and operates on a regular basis.

"OPERATION OF A MULTILATERAL TRADING FACILITY (MTF)"

Management of a new type of market instituted by MiFID. The purpose of MTFs, which are created by one or more financial intermediaries, is similar to that of "regulated" markets, i.e. facilitating the trading, buying and selling of financial instruments in accordance with non-discretionary rules.

"ORGANISED TRADING FACILITY' OR 'OTF'"

A multilateral system which is not a regulated market or an MTF and in which multiple third-party buying and selling interests in bonds, structured finance products, emission allowances or derivatives are able to interact in the system in a way that results in a contract after both parties have consented to the process.

"OTC TRANSACTIONS"

Transactions in financial instruments conducted bilaterally between two market counterparties, outside a regulated market or multilateral trading facility.

"LIMIT ORDER"

An order to buy or sell a financial instrument at a specified price or better and for a specified quantity.

"PROPRIETARY TRADING"

For a credit institution, this service consists in carrying out transactions in financial instruments using its own capital. It notably covers transactions in derivatives, temporary sales of securities, and sales of structured products to clients.

"ORDER RECEPTION AND TRANSMISSION"

For an investment service provider, this service consists in receiving and transmitting orders in financial instruments for a client to another service provider.

"MARKET MAKER"

A party continuously operating on the financial markets for proprietary trading purposes and who buys and sells financial instruments using its own capital, at prices set by the party.

"MARKETABLE SECURITIES"

Categories of securities admitted to trading on the capital markets (except for payment instruments), such as:

- equities issued by companies and other equity equivalents issued by companies, partnerships or other entities, as well as equity certificates,
- bonds and other debt securities, including debt certificates,
- any other security conferring the right to buy or sell such securities or giving rise to a cash payment, set in reference to marketable securities, a currency, an interest rate or return, commodities or other indices or measures.

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