

# Best execution policy of SMN Investment Services GmbH

Version May 2021

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## Introduction

SMN Investment Services GmbH (“SMN”) has been appointed as either the Alternative Investment Fund Manager (“AIFM”) of Alternative Investment Funds (“AIF”) (*acc. to Art 4 Para 1 Alternative Investment Fund Manager Act – “AIFMG”*) or as an investment manager of individual portfolios (*acc. to Art 4 Para 4 no. 1 AIFMG*), if any. Furthermore, SMN provides within the scope of its license the ancillary investment service of reception and transmission of orders in relation to one or more financial instruments (*acc. to Art 4 Para 4 no. 2 lit c) AIFMG*).

Pursuant to the requirements of the delegated regulation (EU) No 231/2013 of the Commission (“EU-AIFM-VO”), SMN has established this Best Execution Policy, wherein the provisions of Articles 27 et seq. EU\_AIFM\_VO contain provisions for best execution of trading decisions for the funds<sup>1</sup> managed (portfolio management). For the extended scope of the licence, the provisions of Articles 62 - 64 Securities Supervision Act 2018 (WAG 2018) apply in addition.

## Publication and updating of this policy

The present policy of SMN is published via the internet on our website <http://www.smn.at>.

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<sup>1</sup> AIF, UCITS and/or Managed Accounts

## A. BEST EXECUTION POLICY

### A.1. OBJECTIVE

The objective of this Best Execution Policy is to achieve on a constant basis best possible trading results in the interest of the customer (see definition under A.2 below). The basic objective common to the provisions is

- to execute trading decisions in a manner as to achieve an overall result of the individual transactions which is as good as possible in view of the specific circumstances applicable;
- SMN's selection of the broker for handling the transactions in course of portfolio management for the funds managed is to meet objective criteria and safeguard exclusively the interests of investors and integrity of the market with the care of proper and diligent management;
- that SMN acts in the best interest of the funds managed by it, when in the course of portfolio management executing or causing execution trading decisions.

Upon request, SMN shall evidence (if practicable) that all relevant orders have been executed in accordance with this Best Execution Policy.

### A.2. SCOPE OF APPLICATION

In connection with this policy a client shall be deemed as a **client of SMN** placing an order with SMN for purchase or sale in connection with a financial instrument offered by SMN, as well as all mutual funds or managed accounts and respectively management company / investment company handled within the scope of portfolio management.

The Best Execution Policy shall apply ...

- when executing trading decisions on behalf of the funds managed within the scope of portfolio management.

The best execution policy shall not apply

- when executing orders (reception and transmission) for purchase or sale of domestic investments funds, as well as foreign investment funds for which public distribution in Austria is admissible, but the issuing and redemption of shares is effected directly via the respective custodian bank<sup>2</sup>;
- for eligible counterparties

### A.3. CLIENT INSTRUCTIONS

Clients may issue explicit instructions to SMN for execution of individual transactions or in general. Such instructions can result in deviation from this Best Execution Policy and SMN may therefore in the given case not achieve the best possible result for the customer. In the case of explicit instructions issued by a client SMN is exempted from compliance with the Best Execution Policy, the instructions from the client shall always prevail.

### A.4. PLACEMENT OF ORDER

SMN doesn't execute orders by itself as such service requires a banking license but it rather transmits them for execution. The transmission applies either when providing portfolio management services or for reception and transmission of orders in relation to one or more financial instruments.

#### A.4.1. Portfolio Management

SMN instructs trading decisions made on behalf of the portfolio management to place orders for purchase or sale of different financial instruments on an account and in the name of the investment funds of selected trading partners (see Annex 1). Trading partners execute orders for particular investment funds or conclude transactions directly with it.

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<sup>2</sup> Acc. § 62 (2) WAG 2018

#### A.4.2. Reception and Transmission of Orders

(Potential) investors may instruct orders via SMN for subscription or redemption of SMN's offered financial instruments (usually shares of investment funds (AIF / UCITS shares)) to forward them to the depository bank. Such orders may be instructed during normal working hours personally in SMN's premises or by post or fax. In the case of shares of investment funds, the cut-off times as defined in the prospectus of the respective investment fund shall be considered for this purpose.

It must be noted that these transactions are not subject to the provisions of best execution (see chapter A.2).

On the basis of the pre-dominant institutional customer structure of SMN, SMN provides the investment service of 'reception and transmission of non-complex financial instruments' basically as execution only service according to Art. 58 WAG 2018. In exceptional cases, the services offered by SMN are also provided for retail customers.

**Regardless of the service provided, the decision to subscribe or redeem is solely with the customer.**

##### A.4.2.1. Execution Only Service (§ 58 WAG 2018)

The transmission of orders is usually provided by instruction of institutional clients. The obtaining of customer-related information in the course of an acceptance and suitability tests (e.g. knowledge and experience of the clients in the investment field) are not required. A subscription or redemption of financial instruments is at customer's own risk.

##### A.4.2.2. Advice-free business (§ 57 WAG 2018)

Subscriptions or redemptions not accepted as execution only service according to Art. 58 WAG 2018, are transferred to an advise-free business according to Art. 57 WAG 2018. In contrast to the operation according to Art. 58 WAG 2018 – the obtaining of customer-related information regarding their experience and knowledge in regard to investments should be performed in order to assess if the client is able to understand the related risks of the services or financial instruments due to his experience and knowledge. A verification of the financial risk-capacity on behalf of the financially circumstances, as well as the investment objectives, are not required.

### A.5. PORTFOLIOMANAGEMENT

In the scope of portfolio management several criteria have to be considered that are differentiated on trading partner level by the respective product and financial instrument used. In doing so, SMN will not provide individual portfolio management for retail clients.

#### A.5.1. Execution Criteria

In order to achieve best possible results for clients on a permanent basis, the following criteria are in particular considered:

- market price
- costs
- type and scope of the order
- probability of execution and settlement
- speed
- other relevant aspects

This is not an exhaustive list of execution criteria. Depending on the type of the order, also a number of further qualitative factors may be relevant for the decision on the execution an order. Depending on the characteristic of the transaction:

- client and its classification (Retail client, Professional client);
- financial instruments ordered;
- execution venues to which the order may be forwarded;

The relevant criteria may differ in their weighting.

### A.5.2. Financial Instruments and their Execution Venues

The selection of the execution venue by a trading partner is directly influenced by the nature of the underlying financial instruments. In the course of the portfolio management for the investment funds SMN currently places orders for the following product classes:

<b>Product class</b>	<b>Exchange traded derivatives (Futures contracts)</b>
<b>Order placing</b>	electronically
<b>Execution venue</b>	It should be noted, that generally one and the same futures contract cannot be traded on several futures exchanges. In this case the choice for an execution venue is invalid.
<b>Relevant criteria</b>	<ol style="list-style-type: none"> <li>1. Liquidity</li> <li>2. Market access</li> <li>3. Quality of the broker</li> <li>4. Transaction costs / Expenses</li> </ol>
<b>Product class</b>	<b>Off-exchange traded derivatives (OTC<sup>3</sup> derivatives)</b>
<b>Order placing</b>	electronically
<b>Execution venue</b>	<p>OTC Derivates are settled over trading partners. The question of the execution venue is relatively low, because the transactions can only be concluded with a chosen counterparty due to their individual feature.</p> <p>FX OTCs (FX = Foreign Exchange Transactions) are mainly concluded with trading partners; the market conformity check is reviewed by means of comparably market rates</p>
<b>Relevant criteria</b>	<ol style="list-style-type: none"> <li>1. Quality of the broker</li> <li>2. Probability of execution and settlement</li> <li>3. Speed</li> </ol>
<b>Product class</b>	<b>Bonds</b>
<b>Order placing</b>	electronically
<b>Execution venue</b>	For this type of instruments transactions are made as a rule through or with brokers or through trading platforms.
<b>Relevant criteria</b>	<ol style="list-style-type: none"> <li>1. Market price</li> <li>2. Liquidity</li> <li>3. Quality of the broker</li> <li>4. Probability of allocation (for new issues)</li> </ol>
<b>Product class</b>	<b>Stocks</b>
<b>Order placing</b>	electronically
<b>Execution venue</b>	As a rule, a broker is given instructions to execute the orders at the home country stock exchange of the respective security because that is where most liquidity is usually available. If this is not possible, endeavours are made to execute the transaction at the trading place with the highest liquidity on the respective trading day.
<b>Relevant criteria</b>	<ol style="list-style-type: none"> <li>1. Market price</li> <li>2. Liquidity</li> <li>3. Quality of the broker</li> </ol>

<sup>3</sup> Over the counter

<b>Product class</b>	<b>Investment funds</b>
<b>Order placing</b>	electronically
<b>Execution venue</b>	Usually transactions will be settled through the depositary bank of the investment funds.
<b>Relevant criteria</b>	<ol style="list-style-type: none"> <li>1. Market price</li> <li>2. Market access</li> <li>3. Transactions costs / Expenses</li> </ol>

### A.5.3. Consolidation / partial execution of orders

Within portfolio management, SMN's trading orders may be merged with orders of other clients of SMN at the trading partner (broker). In this case, the trading partner is informed beforehand how the combined order for the individual accounts (SMN clients) is composed. The executed order is allocated in such way that the orders for the individual accounts are executed (pro rata) at the average price ("even distribution").

If partial executions occur, the contracts are assigned to an odd number on the basis of the "rotation of accounts" method. A fixed, consecutive number is assigned to each customer (e.g. client A = 1, client B = 2, client C = 3), as well as all days of the year except Saturdays and Sundays rolling according the assigned numbers of each customer getting numbered consecutively and in the case of partial executions or an odd number of contracts (if this is a problem related to the number of customers) allocated according to the following logic:

Allocation →				
Day # ↓	Client #	Client #	Client #	Client #
1	1	2	3	[4]
2	2	3	[4]	1
3	3	[4]	1	2
[4]	[4]	1	2	3
1	1	2	3	[4]
...	...	...	...	...

*This procedure is applicable to any number of clients.*

The application of this approach is illustrated below by means of a concrete example. If, on a business-level trading day (including all clients acting on behalf of that market), fewer contracts were executed than instructed, the process of allocating the received contracts (lots) will be conducted according to the procedure described above.

Orders passed on to the broker at the beginning of the trading day:

Client	Market	Delivery month	Order size
Client # 1	Soybeans-SAFEX	2017-12	16
Client # 2	Soybeans-SAFEX	2017-12	29
Client # 3	Soybeans-SAFEX	2017-12	83
<b>Total order</b>			<b>128</b>

Orders executed by the broker at the end of the trading day:

Client	Market	Delivery month	Order size
Client # 1	Soybeans-SAFEX	2017-12	16
Client # 2	Soybeans-SAFEX	2017-12	29
Client # 3	Soybeans-SAFEX	2017-12	83
<b>Total order</b>			<b>128</b>
<b>Total allocation</b>			<b>94</b>

**Step 1:** Determination of the execution rate:  $128 / 94 = 73.4\%$

**Step 2:** Equal allocation with rounded orders (only whole lots can be traded) for all relevant clients based on the execution rate.

Client	Market	Delivery month	Order size	Rate	theoretical Allocation	rounded Allocation
Client # 1	Soybeans-SAFEX	2017-12	16	73.4%	11,75	11
Client # 2	Soybeans-SAFEX	2017-12	29	73.4%	21,30	21
Client # 3	Soybeans-SAFEX	2017-12	83	73.4%	60,95	60
<b>Total order</b>			<b>128</b>			
<b>Total allocation</b>			<b>94</b>		<b>94</b>	<b>92</b>

**Step 3:** Determination of the daily order of the clients according to the previously explained rotation principle.

Day # □	Allocation □			
	Client #	Client #	Client #	Client #
1	1	2	3	[4]
2	2	3	[4]	1
<span style="border: 1px solid red; padding: 2px;">current</span>	3	[4]	1	2
[4]	[4]	1	2	3
1	1	2	3	[4]
...	...	...	...	...

**Step 4:** Rolling division of the remaining ( $94 - 92 = 2$  lots) order starting with the Client # 3, then with the next one in the row (in this case Client # 1), etc., until all lots have been allocated.

Client	Market	Delivery month	Order size	Rate	theoretical Allocation	rounded Allocation	□	final Allocation
Client # 3	Soybeans-SAFEX	2017-12	83	73.4%	60.95	60	+1	61
Client # 1	Soybeans-SAFEX	2017-12	16	73.4%	11.75	11	+1	12
Client # 2	Soybeans-SAFEX	2017-12	29	73.4%	21.30	21	0	21
<b>Total order</b>			<b>128</b>					
<b>Total allocation</b>			<b>94</b>		<b>94</b>	<b>92</b>	<b>+2</b>	<b>94</b>

#### A.5.4. Extraordinary circumstances

In the case of extraordinary circumstances (e.g. interruption of technical connection with particular execution venues, increased volatility on particular execution venues, liquidity bottlenecks, etc.) SMN may be forced to deviate from the principles established in the Best Execution Policy hereunder. Nevertheless, SMN will also endeavour best execution in the interest of customers in such cases.

#### A.5.5. Selection of the trading partners

Whenever SMN acts as AIFM to Luxembourg AIF's, the pre-selection is made in consultation and approval by the investment funds (as they are legal entities on their own with a board of directors) and their custodian banks (supervisory duty), provided that there is no predetermined instruction by the AIF to use a specific broker for this mandate. The same may apply for managed accounts or other funds where SMN has been appointed as individual portfolio manager and there is a predefined setup that has to be used by SMN.

Only when trading partners, subject to successful due diligence (Chapter F – Risk Management Policy) fulfil all defined criteria for permitted trading partners, business relationships will be established. After commencement of the business relationship the trading partners are subject to periodic checks by SMN and generally have their own Best Execution procedures or policies (which are available for SMN) in order to ensure the best possible results.



When selecting the trading partners (brokers), it should also be noted that the investable universe cannot be modified at will as a result of portfolio analytical restrictions (e.g. daily trading volume, availability) as well as other regulations (e.g. prospectus subject to authorization). In addition, the necessary technical connection between the custodian bank and the broker of the investment fund makes it impossible for SMN to serve any broker because of the supervisory requirements of the custodian bank in regard to the investment fund.

For specific transactions, the respective trading partner is selected from the broker list (Annex 1), considering the implementation criteria (chapter A.5.1) in order to achieve the best possible result.

## **A.6. PERIODIC CHECKS**

SMN checks its procedures on a periodic basis in order to achieve the best possible result for investors. In this regard, especially the quality of execution by the selected trading partner is checked (costs, speed and probability of execution). Identified weak points are dealt with and eliminated as early as possible. The Best Execution Policy is checked in particular with regard to being updated and efficient, at least once each year as well as upon significant changes. If required, the Best Execution Policy will be adapted.

## Annex 1 – Selected Partners

Valid as of: May 3, 2021

Portfolio Selection SICAV – SMN Diversified Futures Fund (AIF)	
Product class	Broker
<b>Exchange traded derivatives</b> (Futures contracts)	<ol style="list-style-type: none"> <li>1. Societe Generale SA (FR)</li> <li>2. Morgan Stanley &amp; Co. International PLC (UK)</li> </ol>
<b>OTC derivatives</b>	<ol style="list-style-type: none"> <li>1. Societe Generale SA (FR)</li> <li>2. Morgan Stanley &amp; Co. International PLC (UK)</li> </ol>
<b>Bonds</b>	<ol style="list-style-type: none"> <li>1. Societe Generale SA (FR)</li> <li>2. Morgan Stanley &amp; Co. International PLC (UK)</li> <li>3. CACEIS Bank, Luxembourg Branch</li> <li>4. Erste Bank (AT)</li> </ol>
<b>Investment funds</b>	<ol style="list-style-type: none"> <li>1. CACEIS Bank, Luxembourg Branch</li> </ol>

IMF International Momentum Fund – IMF XL Fund (AIF)	
Product class	Broker
<b>Exchange traded derivatives</b> (Futures contracts)	<ol style="list-style-type: none"> <li>1. Societe Generale SA (FR)</li> <li>2. Morgan Stanley &amp; Co. International PLC (UK)</li> </ol>
<b>OTC derivatives</b>	<ol style="list-style-type: none"> <li>1. Societe Generale SA (FR)</li> <li>2. Morgan Stanley &amp; Co. International PLC (UK)</li> </ol>
<b>Bonds</b>	<ol style="list-style-type: none"> <li>1. Societe Generale SA (FR)</li> <li>2. Morgan Stanley &amp; Co. International PLC (UK)</li> <li>3. CACEIS Bank, Luxembourg Branch</li> <li>4. Erste Bank (AT)</li> </ol>
<b>Investment funds</b>	<ol style="list-style-type: none"> <li>1. CACEIS Bank, Luxembourg Branch</li> </ol>