

P 01-05- SELECTION AND ASSESSMENT OF ORDER EXECUTION AND RESEARCH ENTITIES

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PAM	Head of Compliance and Internal Control (“RCCP”)	All Promepar AM employees	-01/2006 -07/2008 -04/2009 -07/2010 -12/2010 -10/2015 -08/2017 -07/2018	08/2018	- Establishment of procedure - Updates

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1. Regulatory framework

This procedure explains in detail how the brokers and market platforms used by PROMEPAR Asset Management are selected for the execution of orders and/or provision of financial research. It allows the portfolio management company to comply with the regulatory provisions introduced by the texts listed below.

Text	Articles	Description
AMF General Regulations (“RG AMF”)	Article 321-100 Articles 321-114 and 115	Best Selection obligations for UCITS management companies
Commission Delegated Regulation (EU) of 19 December 2012	Articles 25 to 29	Best Selection obligations for AIF management companies
Commission Delegated Regulation (EU) 2017/565 of 25 April 2016	Article 65	Best Selection obligations for portfolio management companies providing portfolio management mandate or RTO services
Delegated Directive (EU) of 7/04/2016	Article 23	Financial research for portfolio management mandate purposes
AMF Position-Recommendation 2014-07 of 05/08/2014	Guide on Best Execution	

2. Regulatory obligations

2.1 Obligations governing all Promepar AM activities

In the course of conducting its various activities (collective portfolio management and private banking), Promepar Asset Management shall take all adequate and reasonable measures to obtain the best possible outcome for the mutual funds it manages, and its clients holding portfolio management mandates.

Promepar AM shall select the entities to which orders are transmitted for execution for each of its activities and for each asset class.

Identified entities shall have established order execution mechanisms allowing Promepar AM to meet its obligations when it places orders with said entities.

Promepar AM shall also have established a policy allowing it to meet its obligation to obtain the best possible outcome for the UCITS and AIFs it manages, for its investors and for its mandate-holding clients.

This policy shall be re-examined at least once a year by Promepar AM or any time a material change is made that has an impact on the portfolio management company’s ability to continue obtaining the best possible outcome.

To that end, Promepar AM regularly verifies the effectiveness of the policy, and in particular the quality of execution or research provided by entities identified under the policy, and corrects any failings it uncovers.

For the purposes of the annual assessment of these entities, Promepar AM shall make a distinction between order execution and research services provided by the various entities.

In accordance with Position-Regulation 2007-07, the portfolio management company shall test the effectiveness of broker execution policies. Samples of execution reports are requested and analysed on a one-off basis, notably for the purposes of best execution controls, and systematically in the event a financial manager identifies a material discrepancy between a broker's execution price and the bid-ask spreads.

2.2 Obligations specific to portfolio management mandates

In accordance with MiFID 2, Promepar AM has elected to conduct its own financial research for the purposes of its portfolio management mandate activity.

Once a year, Promepar AM shall publish the ranking, for each category of financial instruments, of the top five investment companies in terms of trading volumes to which it has sent orders for portfolio management mandate clients in the last year. The template used to report this information shall comply with ESMA Regulatory Technical Standard (RTS) 28.

When trading in OTC products, including bespoke products, for its mandate-holding clients, Promepar AM shall ensure that the price offered to the client is fair by collecting the market data used to estimate the product price and, if possible, by comparing it with similar or comparable products.

3. Entity selection policy

Promepar AM may establish a relationship with a new broker or research provider at the request of one or more financial managers, subject to notifying the RCCI and the Risk Controller.

The financial managers submitting such a request shall explain and formally document the reasons for wanting to work with the entity in question.

Promepar AM conducts due diligence reviews to gather the information needed to decide on whether or not to select the entity. The Risk Controller assesses the entity's solidity and issues an opinion.

A special-purpose new broker meeting is organised with a representative of the portfolio management team that submitted the request, General Management and the members of the Risk Control Committee to discuss the new entity. If the reasons are found to be acceptable and the criteria met, the entity is approved. Once the decision is made, a new broker relationship form is completed (see Appendix 4 for template).

An agreement is then entered into by both parties. If the same entity is selected for research and order execution services, Promepar AM establishes:

- ✓ either two separate agreements
- ✓ or a single agreement under which both services are subject to separate fees and independent departments.

The agreements are stored at the company's offices and on the Promepar AM network.

Note: the order execution agreement shall clearly indicate that Promepar AM's express approval must be obtained for the execution of orders outside a Regulated Market or a Multilateral Trading Facility.

Pursuant to Article 27 of MiFID 2, Promepar AM shall give its prior consent on each broker's order execution policy.

Documentation on any new broker relationship shall at the very least include the:

- ✓ Signed and dated SLA (and amendment, where applicable)
- ✓ Broker's conflicts of interest management policy
- ✓ Broker's best execution policy and usual places of execution
- ✓ Classification letter addressed by the broker, indicating the portfolio management company's classification (as a professional client as per MiFID 1)
- ✓ Pricing policy and brokerage or research fees
- ✓ Anti-money laundering procedure
- ✓ Most recent annual report/shareholding structure

The entity assessment criteria are made available to them on request. The entity is evaluated once a year after being added to the list.

3.1 Approval criteria for order execution entities

The list of entities approved for order execution in each class of financial instruments is provided in Appendix 1.

Criteria used by Promepar AM to select brokers for order execution:

- The entity has a sound financial position (shareholder rating, balance sheet, income statement, etc.)
- The entity is able to provide references attesting to its reputation
- The entity observes the brokerage levels in place at PROMEPAR AM
- The entity's order execution mechanisms allow Promepar AM to meet its obligation to obtain the best possible outcome for its funds under management or private banking clients.

The entity is authorised to operate on the main financial markets, and in products for which it is likely to be approved.

Furthermore, to ensure the best possible execution for its clients, in the course of analysing the entity's procedures and the draft agreement Promepar AM verifies that the entity meets all regulatory best execution requirements, including in particular:

- ✓ Implementation of a best execution procedure
- ✓ Preparation of an annual report on the five main execution platforms used and the quality of execution obtained on each
- ✓ Regular assessments of trading platforms.

These entities are also required to obtain Promepar AM's prior consent on their execution policy before they may execute orders transmitted by the portfolio management company.

The RCCI ensures that there are no conflicts of interest generated by the new business relationship.

a) Investments in bonds and convertibles

Criteria taken into consideration:

- How are buy and sell-side prices proposed?
- Is the entity a primary market maker? secondary market maker? or both?
- How are orders executed and what fees are included?
- Does the entity provide a valuation service?

b) Investments in the equity markets

The various entities shall be authorised to trade on centralised or Euronext markets. The evaluators ask the following questions:

- Does the entity operate on foreign markets? At what cost?
- Does the entity have several trading platforms? Which ones?
- Does the entity have a corporate activity? Does it deal on the primary market?

On all the above markets, each employee interacting directly with the brokers may submit new criteria deemed relevant to refining the entity's assessment. The RCCI ensures that the criteria used to evaluate the entity take best execution requirements into account.

The list of categories of financial instruments is provided in Appendix 3.

General Management validates any new criteria used to evaluate brokers.

c) Prime Broker

In the event PROMEPAR decides to call on the services of a prime broker for the purposes of a mutual fund, the terms and conditions are set forth in a written agreement. In particular, any possibility of transferring and re-using the fund's assets is stipulated in the agreement and complies with the Fund Rules or By-Laws.

The agreement calls for the custodian to be notified of the agreement.

The portfolio management company employs the necessary expertise, care and diligence in selecting and designating any prime brokers with which it plans to enter into a formal agreement.

3.2 Approval criteria for research entities

For the purposes of its UCITS and AIF management activities, as well as portfolio management mandates, Promepar Asset Management procures financial research from specialised entities in order to act in its clients' best interests.

Research entity selection criteria:

- ✓ Quality and diversity of research
- ✓ The entity's reputation
- ✓ Research costs
- ✓ Research distribution channels
- ✓ And the various events proposed by the portfolio management company.

The list of research providers can be found in Appendix 2 to this procedure.

4. Entity assessment and oversight policy

In accordance with applicable regulations, Promepar AM performs a yearly evaluation of the entities to which it sends orders for execution and/or from which it obtains financial research. Subsequent to the entry into force of MiFID 2, Promepar AM performs two separate assessments:

- ✓ An assessment of execution entities;
- ✓ An assessment of research entities.

Where a single entity provides both services to Promepar AM, two independent assessments are conducted.

4.1 Assessment criteria for order execution entities

Objective criteria are used to assess order execution entities to determine if they are capable of meeting Promepar AM's best execution requirements for mandate-holding clients and funds.

The evaluation is centralised by the RCCI and performed by the portfolio managers, the Middle Office (Funds and Mandates) and the Risk Controller.

The criteria are based on execution quality and speed, settlement/delivery quality and financial strength.

The rating is determined on a scale from 0 to 4: 0 being non-existent, 1 insufficient, 2 average, 3 good and 4 excellent. Scores of 0 to 2 are systematically commented by the evaluator.

Main assessment criteria for order execution entities:

a) For execution (care taken in carrying out orders, quality, compliance)

Evaluators examine order execution times, beginning at the point the order is placed with the entity. The main criteria scored include:

- ✓ Execution price
- ✓ Accessibility of contact persons
- ✓ Observation of instructions given when orders are placed, response time in tracking orders, speed of response to the order post-execution
- ✓ Ability to find counterparties, make price offers, particularly on OTC markets (see bond market or block trading)
- ✓ Lastly, tracking of orders through completion.

They consider how fast orders are executed by the entities and counterparties, and how fast they respond. When performing their assessment, portfolio managers also consider any errors committed by the entities and counterparties in executing orders.

b) For operations

The Middle Office (Funds and Mandates) considers any incidents encountered with the different entities. It evaluates:

- ✓ The time passed between execution and receipt of confirmation, availability by phone
- ✓ Reliability of confirmation (discrepancies between confirmations and orders, fund attribution, clearly explained fee calculation, completeness of information, etc.)
- ✓ Settlement/delivery quality.

Lastly, the strength of the entity's financial position is assessed by the Risk Controller.

4.2 Assessment criteria for research entities

Objective criteria are used to assess research entities to determine if they are capable of meeting Promepar AM's financial research requirements.

The evaluation is centralised by the RCCI and performed by the portfolio managers.

The criteria are predominantly based on quality of research.

The rating is determined on a scale from 0 to 4: 0 being non-existent, 1 insufficient, 2 average, 3 good and 4 excellent. Scores of 0 to 2 are systematically commented by the evaluator.

Criteria used for this assessment:

- ✓ Quality of research;
- ✓ Diversity of research;
- ✓ Response times and efficiency of research providers;
- ✓ Research distribution channels;
- ✓ Quality and frequency of events organised by the entity (meetings, company contacts).

The evaluators used these criteria to assess the quality of research provided by research entities. They begin by analysing the consistency of their research with their investment strategy, fulfilment of their ideas and their forecasts.

4.3 Assessment Committee

The results of the assessment are presented and validated by the Assessment Committee, which meets once a year to evaluate brokers and research providers.

The participants at the meeting may decide, based on the assessment of a given entity, to terminate the business relationship with the entity or to place it on a watch list.

PROMEPAR AM's RCCI is responsible for implementing the decisions taken by the Committee.

The Assessment Committee is at the very least comprised of:

- ✓ General Management;
- ✓ the Head of Mutual Fund Management;
- ✓ the Head of Compliance and Internal Control ("RCCI").

Also invited to attend:

- ✓ the Risk Controller;
- ✓ Middle Office employees (Funds and Mandates).

The RCCI prepares a formally documented report which is saved on a dedicated server.

5. Brokerage Fee Report

Articles 319-18 and 321-122 of the RGAMF state that, where a portfolio management company calls on a third party to provide investment decision-making and order execution services, and the brokerage fees for the previous year totalled more than €500,000 for the purposes of UCITS and AIF management activities, the portfolio management company is required to prepare a brokerage fee report, updated as needed. This document stipulates the conditions under which the portfolio management company called on third parties to provide investment decision-making and order execution services for the previous fiscal year, and the percentage distribution between:

- ✓ Brokerage fees charged for order reception and transmission services
- ✓ Brokerage fees charged for investment decision-making and order execution services.

This percentage distribution is based on a method established in accordance with relevant and objective criteria. It may be applied:

- ✓ either to all assets in a given collective investment category;
- ✓ or in accordance with any other category suitable for the chosen distribution method.

Where applicable, this document is available on Promepar AM's corporate website.

The Management Report for each collective investment and the Management Report for each portfolio subject to a mandate expressly refer to this document.

The Brokerage Fee Report indicates the percentage observed for the previous fiscal year, in comparison with all brokerage fees.

It also reports the measures undertaken to prevent or resolve any conflicts of interest in the selection of service providers.

When the document is ready, it is posted on the Promepar AM website. The Management Report for each UCITS or AIF refers expressly to this document.

6. Order execution policy

PROMEPAR AM does not have direct access to the markets, but uses the services of brokers.

The two key points of the portfolio management company's best execution policy are:

- The ex-ante application of a best broker selection policy;
- The ex-post application of a number of controls aimed at ensuring that the best possible outcome is obtained when orders are executed, in accordance with the Best Execution Guide (AMF Position-Recommendation 2014-07 of 5 August 2014). In that respect, the analysis of execution reports transmitted by selected entities (investment service providers) is a necessary condition, but is not enough in and of itself to meet the obligation of ISPs that transmit orders to regularly supervise the effectiveness of their best selection policy. This analysis may be completed by putting specific questions to ISPs in charge of order execution (e.g. asking for details on the execution of one or more transactions).

7. Control system

Level 1 controls:

- Broker execution quality is continuously monitored by the financial managers in the course of their duties.

Controls of best execution on the bond market are systematically formalised by the portfolio managers, who save a screen capture of bid-ask spreads on the network.

For orders placed on the equity markets, the Middle Office formalises this control at the end of the day when it sends the summary of executed orders.

- The financial managers may, where applicable, request order execution reports from the brokers if they detect a material discrepancy or inconsistency between the broker's execution price and the bid-ask spread.
- The Middle Office prepares and publishes the annual mandate report which ranks the top five investment companies that executed orders in the previous year. This report is published on the Promepar AM website.

Level 2 controls:

- Annual control and event-based control of best execution based on an order execution report sample
- Annual Broker Review Committee meeting and preparation of the Committee report
- Regular monitoring of brokers on the watch list
- Periodic and event-based update of broker documentation and the list of authorised brokers, which is distributed internally and to the various brokers
- Verification of the annual mandate report (ranking, see above).

Appendix 1: Current list of authorised order execution entities

Equities:

- SGE
- JP MORGAN
- HPC
- EXANE
- CIC
- GIL-DUPONT
- ODDO
- NATIXIS
- PORTZAMPARC
- BRYAN GARNIER
- RAYMOND JAMES

Fixed Income

- BRED
- AUREL
- EXANE
- OCTO
- ODDO
- GFI

Derivatives

- CACEIS
- HPC

Appendix 2: Current list of selected research entities

- Aurel
- Bryan Garnier
- CIC
- Exane
- Gilbert Dupont
- ID Midcaps
- JP Morgan
- Natixis
- ODDO
- Portzamparc
- Raymond James
- SG
- Spread Research

Appendix 3: Categories of financial instruments

Source: Commission Delegated Regulation of 8 June 2016

Equities and similar instruments — equities & representative certificates

- ✓ Quotation/liquidity levels 5 and 6 (> 2,000 transactions per day)
- ✓ Quotation/liquidity levels 3 and 4 (80-1,999 transactions per day)
- ✓ Quotation/liquidity levels 1 and 2 (0-79 transactions per day)

Debt instruments

- ✓ Bonds
- ✓ Money market instruments

Interest rate derivatives

- ✓ Futures and options admitted to trading on a trading platform
- ✓ Swaps, forwards and other interest rate derivatives

Credit derivatives

- ✓ Futures and options admitted to trading on a trading platform
- ✓ Other credit derivatives

Forex derivatives

- ✓ Futures and options admitted to trading on a trading platform
- ✓ Swaps, forwards and other forex derivatives

Structured financial instruments

Equity derivatives

- ✓ Futures and options admitted to trading on a trading platform
- ✓ Swaps and other equity derivatives

Securitised derivatives

- ✓ Warrants and certificate derivatives
- ✓ Other securitised derivatives

Commodity and emission allowance derivatives

- ✓ Futures and options admitted to trading on a trading platform
- ✓ Other commodity and emission allowance derivatives

Contracts for difference

Exchange-traded products (ETPs) [exchange-traded fund (ETFs), exchange-traded notes (ETNs) and exchange-traded commodities (ETCs)]

Emission allowances

Other instruments

Appendix 4: Establishing a relationship with a new broker

BROKER IDENTIFICATION

Name of broker:

Country of establishment:

SERVICES:

Execution-only Cost w/out tax: Research and analysis Cost w/out tax:

FINANCIAL INSTRUMENTS:

- | | |
|---|--|
| <input type="checkbox"/> Equities | <input type="checkbox"/> Negotiable debt securities, bonds, MMIs |
| <input type="checkbox"/> ETFs | <input type="checkbox"/> Derivatives (futures, options, currency forwards, etc.) |
| <input type="checkbox"/> OTC derivatives | |
| <input type="checkbox"/> Other (specify): | |

PLACES OF EXECUTION:

- | | |
|---|--|
| <input type="checkbox"/> Regulated markets | <input type="checkbox"/> Multilateral trading facility (Alternext) |
| <input type="checkbox"/> Systematic internaliser | <input type="checkbox"/> Market maker |
| <input type="checkbox"/> Other liquidity provider | |

Portfolio manager submitting request:

Date of request:

Reasons:

Date of Broker Validation Committee meeting:

General Management validation (name):

Signature: