

Best Execution Policy

1. General provisions

- 1.1. Aktsiaselts LHV Varahaldus (hereinafter Management Company) manages the assets of LHV mandatory and voluntary pension funds and LHV World Equities Fund (UCITS). The Management Company is supervised by Finantsinspektsioon (Estonian Financial Supervision Authority).
- 1.2. When executing orders the Management Company may execute the order or place an order with a third party (a broker) for execution. Regardless of which option the Management Company chooses, it shall act in the best interest of the investment funds, the unit-holders and the clients. To this end the Management Company shall implement reasonable measures to achieve the best possible result with the execution of orders.
- 1.3. The Management Company shall generally execute an order on the account of an investment fund in case of the following instruments: investing into deposits, acquisition of unlisted securities at regulated trading venues (e.g. acquisition of units of real estate funds), transactions with derivative instruments for the purposes of hedging financial risks incl. market price risk, foreign exchange risk and interest rate risk.
- 1.4. Upon investing into equities, bonds, subscription rights, the shares of exchange-traded investment fund, tradable depositary receipts, money market instruments and in other cases, the Management Company generally delegates orders to third parties for execution.
- 1.5. The Management Company shall ensure that any securities or payments received as a result of the execution, are promptly and correctly transferred to the account of the investment fund. To execute the said obligation, the Management Company has accepted and shall implement this policy and shall take all other reasonable measures.
- 1.6. The principles provided in this policy shall not apply to the extent that the Management Company follows specific instructions from a client when placing an order for execution. It is likely to be only in rare cases that the Management Company will receive such instructions from clients. In general, it is the Management Company itself who will make all the decisions with regard to the execution of orders and will therefore also control the aggregation and allocation of orders among different brokers.
- 1.7. All employees of the Management Company who are responsible for executing transactions on behalf of clients or placing orders with brokers for execution shall conduct their duties in accordance with the principles set out in this policy.
- 1.8. Execution venue shall be a regulated market, a multilateral trading facility, a systemic internalizer or a market maker as defined in the Securities Market Act or another provider of liquidity or a person registered in a third country who provides similar services to those specified.
- 1.9. The list of partners with whom the Management Company places orders for execution has been specified in a separate document "Brokerage companies used by LHV Asset Management". The respective list is updated when necessary and the information about amendments shall be made available on the website of LHV.

2. Selection of best execution venue

- 2.1. The Management Company, portfolio manager or any other employee with the right to execute transactions in the name of the funds shall choose the person executing the order, i.e. shall decide whether the order is to be executed by the Management Company or by a third person, and in that case, by which particular brokerage company. Generally, the Management Company delegates orders for execution to a third party who has direct access to the trading facility and with whom the Management Company has established partnership relations.
- 2.2. Transaction order placed for execution on the account of the assets of the investment fund may be executed outside of a regulated market or a multilateral trading facility, incl. with another investment fund managed by the Management Company as counterparty if it is in accordance with the interests and investment objectives of both funds.

- 2.3. In case of certain securities, the execution of a transaction order is possible in only one execution venue or through one entity. In such case the Management Company assumes to have executed the order with the best possible result.
- 2.4. If a transaction order can be executed through several entities or in more than one execution venue, the Management Company shall compare and assess the results achieved for the investment fund in all such venues or through all such entities with whom the Management Company has established partnership relations and who would be able to execute the transaction order, and shall act with the objective to achieve the best possible result for the fund. In making a decision to execute an order the Management Company shall consider the following execution factors:
 - 2.4.1. the brokerage fee (the percentage as well as the minimum brokerage fee);
 - 2.4.2. the speed and likelihood of execution and settlement. In the case of existing partnerships, this is used to also take into account the assessment results of brokerage companies, incl. the assessment of the portfolio manager as to whether the previous execution of similar orders has achieved the best results;
 - 2.4.3. the volume of the order;
 - 2.4.4. the potential price fluctuation accompanying the execution of an order given through a broker;
 - 2.4.5. direct access to market makers;
 - 2.4.6. other circumstances relevant to the execution of the order.
- 2.5. In executing an order on the account of the investment fund, the Management Company shall take the following into account when assessing the factors specified in clause 2.4:
 - 2.5.1. the investment policy, objectives and risks specified in the fund rules or articles of association;
 - 2.5.2. the circumstances of the order;
 - 2.5.3. the characteristics of the securities which are the object of the order, and the characteristics of the execution venues where the order can be placed for execution. For example, the comparative assessment of brokerage companies shall take into account the type of asset which is the object of the order. as well as the services the broker provides and its geographic coverage.
- 2.6. As a rule, upon the best execution of the order, the Management Company shall give high priority to the price and costs of the transaction, i.e. the total consideration consisting of the price of the security and costs related to the execution. The latter includes all expenses incurred by the investment fund which are directly related to the execution of the order, such as execution venue fees, settlement fees and other fees paid to other entities involved in the execution of the order. When executing the order of an investment fund, the Management Company shall make a decision based on the total consideration.
- 2.7. In circumstances where the Management Company considers that speed and certainty of execution and market impact are important execution factors, the Management Company is permitted to execute the order on the basis of the prices quoted by/available on a single execution venue.
- 2.8. In case of larger orders, certainty of execution, reduction of market impact and speed of execution have greater importance. In order to ensure quick executions and minimum market impact such orders may be split among multiple brokers, direct access to market makers is preferred.
- 2.9. In certain circumstances, transactions may be initiated by the execution venue or a broker. In these circumstances and where speed of execution and certainty of execution are perceived to be important execution factors by the Management Company, it will not always be reasonable to check the available price against other execution venues/brokers. In such case, the Management Company is permitted to execute the order with the person who initiated the transaction.

3. Supervision over the activities of brokerage companies

- 3.1. The Management Company evaluates brokers before entering into an agreement and conducts periodic follow-ups to make sure whether brokers are able to offer a consistent and high quality execution service, taking into consideration all the relevant aspects of the execution.
- 3.2. Before entering into an agreement with a broker and also during periodic follow-ups, the Management Company shall make sure that the broker complies with the following provisions:
 - 3.2.1. whether the brokerage company is pursuant to legal acts obliged to follow the EU requirements on the best execution of the client orders;
 - 3.2.2. how the broker classifies the Management Company with regard to MiFID and whether that classification ensures that the interests of the Management Company as well as those of the funds under management are sufficiently protected;
 - 3.2.3. whether the activities of the brokerage company and the quality with which it executes orders meet the necessary requirements.
- 3.3. If the brokerage company has not implemented the best execution policy which meets the requirements (e.g. in case of partners located outside of the EU) it must still meet the basic requirements for acting in the best interests of the client and the best execution of the client's order. In such a case, the Management Company shall give specific guidelines to the brokerage company in order to ensure the best execution of the order placed on the account of the investment fund.
- 3.4. Where the Management Company places the order via a broker for execution, the Management Company is not responsible for ensuring that the broker obtained the best possible result with regard to any specific order. The Management Company does not also control which execution venues the broker has access to. The Management Company is not obliged to check the execution of every single order or document the way in which the broker achieved the best result. It is, however, the duty of the Management Company to ensure that the brokers that the Management Company has elected to use, enable the best possible result to be achieved (through evaluation of the brokers before entering into an agreement and periodic monitoring) and to assess whether the principles provided in the hereby policy are followed when placing orders via brokers for execution.
- 3.5. The Management Company may, when placing an order to a broker for execution:
 - 3.5.1. determine the final execution venue and give the brokerage company other specific guidelines in accordance with the hereby policy, incl. give limit orders when necessary, or
 - 3.5.2. allow the brokerage company to determine the measures for the best execution of the order itself.
- 3.6. The principles for the selection procedure of a brokerage company and for the performance follow-ups have been provided in more detail in the internal procedure rules of the Management Company "Procedure for the selection of brokerage companies and brokers".

4. The sequence of execution, aggregation and allocation of orders

- 4.1. The Management Company may aggregate the funds' and the clients' orders. Prior to the aggregation of orders, the fund manager or portfolio manager shall assess the effect of the aggregation on the clients and makes the decision to aggregate the orders only when according to his/her best judgment the aggregation is not detrimental to the interests of the clients.
- 4.2. Once the aggregated orders have been executed, the Management Company will allocate orders across the clients who participated in the order. The aggregation of orders will be prompt, fair and consistent. In most cases allocations will have been made at pre-execution.
- 4.3. Upon failure to achieve execution of the full order, the Management Company shall re-allocate the order on a pro-rata basis without giving preference to any single client, taking into account the size of the order given. If pro-rata allocation is not possible or is deemed financially impractical (e.g. due to an insufficient transaction volume), it is obligatory to document the circumstances taken into consideration when deciding on the final allocation.
- 4.4. In aggregating the orders for one or more investment funds and/or a client, the Management Company shall make sure that it does not allocate the orders for execution in a manner that is detrimental to the investment fund or the client. The Management Company shall not aggregate orders given on its own behalf with the orders of the funds and the clients.

5. The registration and recording of orders

- 5.1. Keeping the best interests of the investment fund in mind, the Management Company shall promptly record the information regarding the transaction order executed on behalf of the investment fund in a data processing system. The information recorded shall be sufficient to restore the order given at the execution of the transaction and other circumstances of the transaction. At least the following information is recorded:
 - 5.1.1.the name of the investment fund and the authorized person acting on behalf of the investment fund;
 - 5.1.2.the details on the transaction or the security which is the object of the order or the transaction;
 - 5.1.3.the quantity of the order or the transaction;
 - 5.1.4.the type of the order or the transaction;
 - 5.1.5.the price of the order or the transaction;
 - 5.1.6.the date and time of the transmission of the order and the name of the person to whom the order was placed (name of the brokerage company) or the date and time of the transaction decision and execution of the transaction;
 - 5.1.7.the name of the person placing the order or executing the transaction;
 - 5.1.8.where applicable, the reasons for revocation of the order, excl. the revocation of a limit order where the order could not be executed with a set limit price;
 - 5.1.9.for executed transactions, the counterparty and execution venue identification.
- 5.2. Reasons for the revocation of an order placed with the broker shall mean any circumstances other than typing errors made by the person who enters the order and the transaction into the data processing system. If such circumstances arise and revocation of an order is needed, the person who placed the order must register and briefly comment the reasons for the revocation of the order if such reasons are not deemed obvious.
- 5.3. If the manner of the execution of an order, the selection of the execution venue or other decisions pertaining to the execution of an order are not obvious, the person who placed the order shall add a corresponding comment about the relevant choice to the data processing system or shall document it in another way.
- 5.4. The Management Company shall document the circumstances of the execution of an order or of placing an order for execution pursuant to the internal procedural rules of the Management Company and in a manner which enables to prove with every executed order that the respective order was executed pursuant to hereby policy.

6. Updating and amendment of the policy

- 6.1. The Management Company shall perform follow-up control of the effectiveness and timeliness of the measures provided in the hereby policy and shall assess on a regular basis whether the provisions of the policy meet the requirements provided by laws. This obligation has been incorporated into the Management Company's general compliance monitoring process to ensure achieving best execution on a consistent basis. The monitoring process will generally involve either continuous supervision or random monitoring of the execution of an incidental sample of transactions. If it appears in the course of the compliance monitoring that the best possible result was not achieved, an additional evaluation of the circumstances is conducted. In the course of the monitoring activities it may become evident that a review of the hereby policy is necessary.
- 6.2. When conducting monitoring activities, it is also evaluated whether the Management Company could achieve better results when executing orders if:
 - 6.2.1.the Management Company were to use additional or different brokers in addition to those already approved by the Management Company;
 - 6.2.2.a bigger relative importance were assigned to another execution factor in the case of a particular asset category;
 - 6.2.3.the Management Company were to modify any other principles provided in this policy.
- 6.3. Additionally, the Management Company shall review the effective policy each time such material change occurs which could diminish the Management Company's ability to execute the transaction order in the best interests of the investment fund using the execution venues specified in the best execution policy.

- 6.4. The follow-up monitoring activities specified in the previous clauses are carried out regularly provided that the hereby policy is reviewed and updated at least annually. Upon detection of deficiencies, the Management Company shall amend and update the rules currently in effect.
- 6.5. The version of the hereby policy currently in effect shall be made available in the seat and on the web page of the Management Company. In case material changes are made to the hereby policy the Management Company shall notify the clients of the amendments via the website of the Management Company unless the agreement entered into by the Management and the client provides otherwise. The risk management department of the Management Company shall exercise supervision on whether the notification duty is met.
- 6.6. The amendments shall come into effect within one month's time as of the date of publication unless the Management Company has set another date.