

Best Execution Policy

of AS Avaron Asset Management (hereinafter: “Avaron”).

1. Duty to act in the best interests of Investors

- 1.1. Avaron manages money for Avaron in-house UCITS funds and non-UCITS funds, managed accounts of professional investors and non-professional portfolio management investors (hereinafter all together as: “Investors”).
- 1.2. Avaron has the duty to act in the best interests of Investors when executing orders or placing orders with other entities for execution that result from decisions by Avaron to deal in financial instruments on behalf of its Investors (hereafter: “Order Execution”).
- 1.3. The Management Board of Avaron shall ensure that there are policies and arrangement in place to deliver best execution to Investors on a consistent basis. In order to comply with the above-mentioned obligation, Avaron has adopted and implements this Best Execution Policy (hereinafter: “BEP”). The focus of the BEP is on having a reasonable process and taking sufficient steps for obtaining the best possible result on over-arching general basis. Avaron takes all other reasonable steps to obtain the best possible result for its Investors. However, there is no guarantee that Avaron can comply with this obligation with regards to each and every transaction made on behalf of an Investor.
- 1.4. This policy applies to Order Execution on behalf of Investors in relation to any financial instrument as defined in MiFID, including shares and other securities equivalent to shares in companies, partnerships or other entities (incl. depository receipts in respect of shares), bonds or other forms of securitised debt (incl. depository receipts in respect of such instruments), and other transferrable securities, derivative instruments (whether exchange traded or OTC), shares or units in collective undertakings, money market instruments.
- 1.5. **To the extent that an Investor provides Avaron with a specific instruction in relation to the Investors’ order or any part of that order, Avaron will strictly follow such instruction. This may prevent Avaron from following the procedures it has designed and implemented in BEP to achieve the best possible result for that specific Investor.**

2. Execution venues and relations with intermediaries

- 2.1. Avaron shall generally place an order for execution with a third party brokerage firm (hereinafter: “Broker”) with which Avaron has entered into a relevant agreement and where Avaron can on a consistent basis obtain the best possible result for the execution of Investors’ orders in accordance with the BEP. A Broker has direct access to an execution venue such as a regulated market, a multilateral trading facility, a systematic internaliser, market makers or other liquidity providers (hereinafter: “Market”).
- 2.2. Before entering into an agreement with the Broker, Avaron shall conduct and appropriate due diligence of the Broker. In determining whether a Broker can facilitate best execution, Avaron shall consider whether:
 - 2.2.1. the Broker is itself subject to MiFID best execution requirements and how it executes Avaron orders (incl. review the Broker’s best execution policy and order execution and allocation policy, if available);
 - 2.2.2. the Broker has undertaken in the agreement entered into with Avaron to comply with any or all of the MiFID best execution requirements (or other best execution requirements, as considered equivalent or sufficient by Avaron);
 - 2.2.3. the Broker can demonstrate that it delivers a high level of execution quality and has appropriate execution arrangements in place (incl. monitoring and review thereof).
- 2.3. In the case where the Broker has not implemented a relevant best execution policy (e.g. non-EEA service providers), it should still comply with minimum requirements relating to acting in the best interests of a client and order execution. When placing orders with such Brokers, Avaron shall provide specific instructions to the entity and exercise additional control over how its orders are executed, in order to meet its own obligation to achieve the best possible result to Investors.

2.4. Avaron shall enter into agreement with the Broker, provided that Avaron has satisfied itself that the entity has implemented an appropriate best execution policy and has organisational arrangements that will enable Avaron to comply with its obligation to obtain the best possible result for Investors

3. Execution arrangements

3.1. In placing orders with Brokers, Avaron generally retains control over how Investors' orders are executed, including selection of trading venue. However, it is not in Avaron's power to control how each individual transaction is executed by the Broker. Avaron usually provides specific instructions to the Broker of how and where to execute an order, or will satisfy that the Broker follows its own best execution principles set for executing the orders that ensure the compliance with this BEP.

3.2. Depending on the agreement with the Investors, Avaron may permit Investors to provide specific instructions to execute a trade on the account of their portfolio. In such case, Avaron shall place the order in accordance with the Investors' instruction. If the specific instruction does not address all relevant aspects of execution, Avaron shall adhere to the relevant provisions of this BEP, and procedures adopted hereunder with regard to those aspects of a transaction not governed by the instruction.

3.3. Avaron can also execute an order by itself, among others matching the order in-house or participating in IPOs or bookbuildings. In such case Avaron shall be able to demonstrate that the conditions of the trade were at least as favourable as would have been, if executed in accordance with the BEP.

3.4. **An order can be executed outside a regulated market or a multilateral trading facility if not forbidden by an investment management agreement or Investors' prospectus (if applicable).**

3.5. **An order can be executed between various Investors ONLY if it is:**

3.5.1. **in accordance with the Estonian Investment Fund Act (if applicable);**

3.5.2. **in the best interests of Investors and their investment objectives;**

3.5.3. **allowed by Investors' prospectus (if applicable) or investment management agreement signed with Avaron.**

4. Designating Brokers for particular trades

4.1. All Brokers with whom Avaron has signed relevant agreements for Order Execution are rated for Order Execution by Avaron Trader, Head of Research, Back-Office and Compliance Officer as suitable Brokers or not suitable Brokers.

4.2. Avaron rates all Brokers for best execution purposes for every Market in 5-point rating scale for each segment:

4.2.1. Commission rate and costs for Order Execution for a Market (40% weight);

4.2.2. Smoothness, speed, likelihood of Order Execution, ability to provide blocks, likelihood of the Broker being bookrunner in accelerated book buildings or new offerings (20% weight);

4.2.3. Smoothness of settlement of Order Execution (20% weight);

4.2.4. Potential conflict of interest (20% negative weight).

4.3. All suitable Brokers are considered as best execution brokers (hereinafter: **"BEP Broker"**) and ranked based on their total score. The list of BEP Brokers is approved by the Management Board and appended to this BEP (Appendix 1). All BEP Brokers are registered as active brokers in Avaron in-house trade and order management system.

4.4. Avaron Trader, Head of Research and Back-Office review the list of BEP Brokers regularly and make proposals to Compliance Officer to update the list, unless exceptional circumstances require immediate amendments or changes to be made therein. In case there are changes to BEP Brokers, the updated list will be approved by the Management Board. Back-Office makes the relevant changes in Avaron in-house trade and order management system.

4.5. Avaron shall use only BEP Brokers for Order Execution. Where an Order Execution can be made on a single Market or through a single BEP Broker (e.g. transactions in fund units or shares not traded on an exchange or other liquid market), it is assumed that Avaron has satisfied its obligation for obtaining the best possible result.

- 4.6. When there is more than one competing Market or BEP Broker that are capable for Order Execution, Avaron shall generally prefer the Brokers that have the highest rankings. Nevertheless, Avaron may choose any of the BEP Brokers that suits best for executing a particular type of order in a specific instrument under specific circumstances.
- 4.7. Generally, BEP Brokers are designated with regard to a particular trading strategy, Market, type of instruments and/or orders, and are used on fixed basis, unless exceptional circumstances (e.g. large, irregular or extraordinary orders) justify selection of a BEP Broker on case-by-case basis. Avaron may also, in exceptional circumstances, use other brokers not listed in the BEP, for example on a provisional basis or to accommodate Investors' request to trade in an unusual instrument, with a view to satisfying the overarching best execution requirement.
- 4.8. The assessment and designation of BEP Brokers shall be undertaken jointly by Avaron Trader, Head of Research, Back-Office and Compliance Officer. Such designation shall be approved by the Management Board. The choice and/or designation of a BEP Broker for Order Execution depends on the following (non-exhaustive) list of considerations:
- 4.8.1. **Price.** The price is an important factor to consider whenever it is possible to execute orders at more than one price. In assessing Brokers, Avaron considers whether a Broker generally offers (intermediates trading at) prices that are as good as, or better than, its competitors.
- 4.8.2. **Commission and costs.** Costs can be both explicit and implicit. Explicit costs could include transaction costs (for example, commissions and settlement costs) and the costs of accessing particular Markets. Implicit costs result from how a trade is executed (e.g. immediately or patiently, in a block, aggregated with other trades, or in segments at different Markets). A trade may appear more expensive in terms of explicit costs but may be less expensive when implicit costs are considered. For example, a Broker that works a large order patiently, preserving the client's confidentiality, may achieve the lowest total costs (and the best net price).
- 4.8.3. **Speed.** The speed refers to how quickly a Broker tends to complete an order. Obviously, prices change over time. The frequency at which prices change varies with different instruments, market conditions and Markets. If a cost of an adverse market movement is likely to be great, speed of execution may be of utmost importance. For large orders and orders for less liquid instruments, under certain market conditions other considerations may outweigh speed. In assessing Brokers, Avaron considers whether a Broker can achieve speedy execution when required.
- 4.8.4. **Likelihood of execution and settlement.** The best price consideration may be irrelevant, if the Broker is unlikely able to complete or settle the order. In assessing Brokers, Avaron considers the depth of trading opportunities provided by a Broker, and the likelihood that the Broker will be able to complete and settle the order.
- 4.8.5. **Size and nature of an order.** All Brokers or Markets may not be able to facilitate orderly and speedy execution of orders large in size, or with other particular characteristics. Therefore, any order constraint may be an important consideration for obtaining the best possible result. In assessing Brokers, Avaron considers how well a Broker performs in executing orders with particular characteristics (e.g. ability to offer blocks in case needed).
- 4.8.6. **BEP Broker being an open line for all Investors.** The custody structures used by certain Investors may not facilitate order execution via particular Broker. If Avaron needs to place an order for several Investors simultaneously, a BEP Broker who is an open line for all Investors is preferred.
- 4.8.7. Any other consideration relevant to the efficient Order Execution (including liquidity and the effect that the order could have on market price).
- 4.9. When assessing Brokers, and evaluating the relative importance of the factors referred to in Section 4.8, Avaron shall take into account the following criteria:
- 4.9.1. Characteristics of an Investors' including the categorisation of the investor as retail or professional;
- 4.9.2. Characteristics of the Investors' order;
- 4.9.3. Characteristics of financial instruments that are the subject of that order;
- 4.9.4. Characteristics of the execution venues to which that order can be directed;

- 4.9.5. Objectives, investment policy and risks specific to the Investors', as indicated in fund rules, prospectus or investment management agreement.
- 4.10. Normally, an important weight of an Investors' Order Execution is placed on the total consideration of the order, representing the price of the financial instrument and the costs related to execution, which shall include all expenses incurred by an Investor directly related to the execution of the order, including execution venue fees, clearing and settlement fees and any other fees paid to third parties involved in the execution of the order, as well as explicit internal costs which represent both Avaron's and BEP Broker's own remuneration through commissions or spreads. In addition to explicit cost factors, also implicit cost relating to the Order Execution, where relevant, shall be taken into account (e.g. whether executed immediately or over a period of time, in a block, aggregated with other trades, or as child orders sent to multiple different execution venues). Assessment of implicit costs on *ex ante* basis is judgemental only. However, Avaron shall monitor the relevance of implicit costs on an *ex post* basis to confirm whether such assessments were correct or not.
- 4.11. When executing an order on behalf of a non-professional (retail) Investors, the best possible result shall be always determined based on the total consideration.

5. Order of executing orders, aggregation and allocation of orders

- 5.1. Avaron shall execute orders on behalf of Investors promptly and impartially.
- 5.2. Avaron shall carry out otherwise comparable Investor orders sequentially and promptly unless the characteristics of the order or prevailing market conditions make this impracticable, or the interests of Investors require otherwise.
- 5.3. In case a non-professional (retail) investor has submitted Avaron an order, Avaron shall inform such investor about any material difficulty relevant to the proper carrying out of orders promptly upon becoming aware of the difficulty.
- 5.4. **Avaron is entitled to aggregate the Investors' order with another Investors' order.** Aggregation of orders is not permitted if such aggregation would be harmful to the Investors' whose order is being aggregated. Aggregation of orders may work to the disadvantage of the Investors' in relation to a particular order. If Avaron submits an order for execution to a BEP Broker, such BEP Broker is entitled to aggregate the order with other orders according to the regulations applicable in the Market or the BEP Broker internal policies.
- 5.5. Generally, Avaron shall transact in the same financial instrument on behalf of Investors with similar investment strategy simultaneously and such orders shall be aggregated, notwithstanding if the orders were given at the same time on the same day.
- 5.6. In case an initial order needs to be adjusted for the certain Investors' due to external reasons that were not known to Avaron at the time of placing the order (e.g. outflow/inflow to a portfolio which requires changes in portfolio allocation), such orders shall not be aggregated with the existing order. In such occasion it might require the use of a different BEP Broker and Investors may receive different execution prices compared to the aggregated order of other Investors.
- 5.7. Aggregated orders shall be allocated to Investors at weighted average price.
- 5.8. If an aggregated order is partially executed, no Investors' shall be given preferential treatment when allocating the order and all Investors shall be treated equally.
- 5.9. **If an aggregated order is partially executed, Avaron's Trader shall allocate the order to Investors *pro rata*** with the initial order (rounding up to the nearest trading lot is allowed). However, if Avaron aggregates Investors' order with its own proprietary order, upon partial execution orders shall be allocated first to Investors and only thereafter to Avaron, unless it can be demonstrated that without such aggregation it would not have been able to execute orders in such favourable terms, or at all.
- 5.10. In certain situations, it might be unreasonable to allocate the order *pro rata* (e.g. where an Investor would accordingly receive an unreasonably small amount of securities and incur too high settlement related costs). In case a single Investor would receive securities below €1,000, Avaron may disregard the rule of *pro rata* allocations but will still strictly follow the principle that all Investors should be treated fairly.

6. Monitoring BEP Brokers

- 6.1. Avaron Trader and Compliance Officer shall monitor, on a regular basis, the effectiveness of the BEP.
- 6.2. The monitoring shall encompass the following:
 - 6.2.1. whether the BEP, and relevant best execution arrangement and procedures implemented thereunder have been appropriately applied (it can be demonstrated that Order Execution has been undertaken in accordance with the BEP);
 - 6.2.2. whether the Order Execution has delivered the best possible result to Investors (if not, determine the reasons).
- 6.3. The frequency of monitoring shall be determined as per relevant circumstances, to enable timely identification of trends that merit closer examination. The monitoring shall be undertaken at least on an annual basis.
- 6.4. The monitoring shall be undertaken on the basis of actual trades undertaken by Avaron. Where monitoring every transaction would be disproportionate, a representative sample of transactions shall be used. The appropriate monitoring methodology shall be determined by the Compliance.
- 6.5. The monitoring shall include the following:
 - 6.5.1. Assessing the proportions of orders given for execution to BEP Brokers with the highest rankings comparing to other BEP Brokers;
 - 6.5.2. Comparing similar transactions on different Markets or with different Brokers chosen from among those in the BEP Broker list, in order to test whether the most suitable BEP Broker has been chosen for a given type of transaction;
 - 6.5.3. Analysing the number of aggregated orders allocated between Investors disregarding the rule of *pro rata* and the reasons for *non-pro rata* allocations;
 - 6.5.4. Comparing the transactions with the same instrument during the same day that have been executed with a different price for Investors and analysing the reasons for it.
- 6.6. Where monitoring reveals that the best possible result has not been obtained for Investors, Avaron shall determine whether this was due to (i) failure to adhere to the BEP and/or execution arrangements or procedure, or (ii) because of a deficiency in such policy and/or arrangements. Avaron shall make appropriate amendments to the BEP and its execution arrangements and procedures to correct any deficiencies.
- 6.7. When in Order Execution reliance is put only to the best execution policies of the BEP Broker (i.e. no specific instructions provided by Avaron), the scope of monitoring shall be the execution quality of BEP Brokers. However, Avaron cannot continue to rely on a BEP Broker to obtain best execution if the monitoring or review indicates that the BEP Broker is not, in fact, enabling it to obtain the best possible result for the execution of its orders.

7. Review of BEP

- 7.1. In addition to regular monitoring, the BEP shall be reviewed and updated whenever there is a material change that affects the ability to obtain the best possible result in Order Execution, but at least once a year. The review shall be undertaken jointly by Avaron Trader, Head of Research, Back-Office and Compliance Officer.
- 7.2. The review should address whether Avaron could consistently obtain better execution results, if it were to:
 - 7.2.1. Include additional or different Markets or Brokers;
 - 7.2.2. Assign different relative importance to the best execution factors (as provided in Section 4.8);
 - 7.2.3. Modify any other aspects of the BEP and/or its best execution arrangements and procedures.
- 7.3. Based on the review, Avaron shall make appropriate amendments to facilitate best possible results in Order Executions.

8. Effectiveness

8.1. The effective version of this BEP shall be published at Avaron web site.

Valid from:	November 2007
Amended:	January 2018
Approved by:	Management Board of AS Avaron Asset Management

Appendix 1 - List of Brokers

AS Avaron Asset Management may use the following execution brokers listed below. Avaron may also use other brokers not listed below where it deems appropriate in accordance with the Best Execution Policy and remove any brokers from the list.

Broker	Equities	Fixed Income	Derivatives
Adamant Capital Partners AD		+	
BCS Prime Brokerage	+		
BGC Partners Menkul Degerler	+		
Citigroup Global Markets		+	
Concorde Securities	+		
Danske Bank A/S Eesti filial		+	
DNB Bank ASA		+	
DNB Bankas AB		+	
BANK ZACHODNI WBK S.A. DOM MAKLERSKI BZ WBK	+		
Dom Maklerski mBanku	+		
Erste Bank	+	+	
Eurobank Equities	+		
EVLI Bank		+	
First Financial Brokerage House	+		
Goldman Sachs	+	+	
Ilirika	+		
Interkapital Vrijednosni Papiri	+		
IPOPEMA Securities	+		
Karoll	+		
Komercijalna Banka	+		
LHV Pank	+		
Maxis Investments Ltd		+	
Oppenheimer & Co		+	
Patria Finance, a.s.	+		
PKO Bank Polski	+		
Raiffeisen Bank	+	+	
SEB Pank AS	+	+	+
Sofia International Securities	+		
Stifel Nicolaus Europe		+	
STX Fixed Income		+	
Swedbank AS	+	+	+
TEB Yatırım Menkul Değerler	+		
Unicredit		+	
Wood & Company Financial Services	+		