

## Best Selection and Best Execution Policy

### Background

As part of its portfolio management activities, Capital Fund Management SA ("CFM") processes all trading activities on behalf of its clients on a systematic basis. Such electronic trading systems require the availability of a sophisticated infrastructure which may only be maintained with a limited number of trading counterparties. CFM thus conducts materially all trading activities as member of exchanges or other execution venues, or through executing brokers with whom it has established electronic links. In this context, CFM must act in the best interest of its clients and the funds it manages when providing portfolio management services. It has designed and implemented a policy for selecting and assessing the entities that provide trade execution services and then take all reasonable measures to obtain the best possible results for its clients or for the funds it manages.

### Regulatory requirements

As an investment manager, CFM is, under EU Directive 2014/65 on Markets in Financial Instruments, as amended from time to time ("MiFID")<sup>1</sup>, required to, inter alia:

- ▶ act in accordance with the best interests of its clients when choosing execution venues and brokers ("Best Selection");
- ▶ process orders that result from decisions by CFM to deal in financial instruments on behalf of those clients:
  - > in accordance with the best interests of its clients, when placing orders with brokers for execution; and
  - > taking all reasonable steps to obtain the best possible result for its clients, when directly executing orders on an execution venue ("Best Execution").

In order to comply with the above obligations, CFM takes into account the "execution factors" specified by MiFID, being price, cost, speed, likelihood of execution and settlement, size, nature, or any other consideration relevant to the order.

CFM is also subject to certain SEC requirements which although worded differently are aligned with the above.

### Best selection of brokers and execution venues

CFM only directs trades to reputable execution parties that provide high liquidity (for execution venues), low cost, low latency (*i.e.* high speed), high level of straight through process and a high likelihood of settlement (*i.e.* high quality). CFM has determined that external research papers provided will not be a factor for selecting and evaluating execution parties, as CFM uses very little such third-party research. The liquidity requirement is dealt with by considering the main execution venues for each type of instrument that CFM transacts in. The above criteria also apply to the selection of execution parties used for manual trading but in this case, high latency and high level of STP criteria are no longer relevant. The cost considerations are evaluated separately for each asset class as the structure of costs differ in different types of markets. CFM is continuously working to reduce the latency of its trading activities. When choosing execution venues and brokers, CFM considers reputable institutions that process a significant volume of trades in the respective markets covered. The level of straight through processing required is high and the institution needs to be focused on eliminating any manual intervention in the trading process. For execution parties that fulfil the above criteria, CFM also considers their regulatory standing, possible counterparty risks as well as the country and currency risks related thereto (*i.e.* financial stability). CFM does not currently have directed brokerage.

<sup>1</sup> Note that the introduction of MiFID II in January 2018 did not modify the Best Selection and Best Execution requirements of CFM. As a UCITS Portfolio Management Company, CFM continues to apply MiFID rules as implemented by the Autorité des marchés financiers.

CFM's electronic trading systems are connected to a limited number of approved brokers (the "Approved Broker List") that are used to execute trades on behalf of Clients. The performance of brokers on the Approved Broker List is reviewed on a quarterly basis.

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## Best execution of trades

Where it has the ability to use its own technology to connect to market infrastructure, CFM can achieve low cost, low latency and a high level of control over execution quality when trading using its memberships directly on an execution venue. Alternatively, CFM can use DMA brokers (and brokers) where this is likely to improve the execution quality without significantly increasing commissions paid by the client. CFM has a policy of not levying any commission when executing trades on behalf of clients on execution venues where it trades using a membership.

The execution of certain trades can be carried out manually in markets where electronic connectivity to execution parties is not available or where the cost of executing manually is more favourable to clients. CFM has developed a trading infrastructure for manual trading, which is intended to control the manual trading process in accordance with a similar workflow to that applied when trading electronically. CFM's trading systems are built to continuously take into account the total cost of trading defined as execution rates, price, commissions, exchange fees and clearing costs when generating orders. Certain trading systems also take into account the cost of financing at the point of executing a trade. The management of cost of trading is thus an integral part of CFM's trading activities. The volume of trading and the type of orders will change as a function of the cost of trading.

CFM has an obligation to monitor the effectiveness of its order execution arrangements; the monitoring process involves a periodic review (generally semi-annual) by CFM's Internal Control team of transactions within each class of instrument to ascertain whether the best possible result was obtained in respect of those transactions, taking into account the relevant execution factors. CFM is continuously working on the improvement of its post-trade monitoring process, including statistical analysis of execution prices. On a semi-annual basis, Compliance tests the execution ratios of CFM's trading activity for each asset class traded. The focus is to establish a stable trading pattern, where execution ratios and the lifetime of orders only evolve slowly over time. A semi-annual Best Execution report tracks key metrics.

## Proxy voting policy

CFM has a policy to vote by proxy in shareholder meetings that its Clients are notified of, using a third-party proxy voting adviser (the "Proxy Agent"), except when the aggregate Clients' holdings in an issuer are insignificant. CFM will generally vote by proxy in line with the recommendations of the Proxy Agent. To this end, CFM has subscribed to the Proxy Agent's ESG Guidelines and has verified, based on general guidelines and principles, that the recommendations rather systematically supports shareholder motions that demand more transparency from companies in terms of strategy for climate change and handling of related risks, in terms of lobbying money being spent on climate change related initiatives, and in terms of linking management remuneration to achieving ESG related targets. For ballots relating to particularly sensitive topics, the CFM ESG team may confirm that the Proxy Agent's recommendation fits its Clients' best interest before approving the vote.

It should be noted that the Firm may only vote proxies when it has a mandate to do so and when securities are held in trust with a custodian that allows for proxy voting. Securities that are held with a prime broker that has taken title interest in the security through re-use are generally not available to vote.

At the date of this document, the physical securities portfolios advised by CFM only include securities listed in the US. The Firm generally trades exposures to non-US equities as single stock swaps or CFD's and such instruments thus do not provide the possibility to vote proxies.

## Processing clients complaints

### Complaints

Any statement alleging any specific, inappropriate conduct on the part of the CFM or one of its employees that states or could support a claim of a violation of law, duty or contract constitutes a complaint. Clients and investors can file complaints free of charge with CFM. Each complaint shall be properly recorded by CFM's Chief Compliance Officer ("CCO"), acknowledged within ten business days, and responded to within two months. Complaints made by investors in EU-domiciled funds can be made, and will be responded to, in one of the official languages of the EU Member State in which the fund is sold. Information on a management company's policy on complaints handling shall be made available free of charge to investors upon request.

Any CFM employee receiving a complaint, whether oral or written, from any Client or from any investor in a private fund must promptly bring such complaint to the attention of the CCO. Employees should not attempt to respond to or resolve any complaint by themselves. All responses to such complaints must be handled by the CCO, except that complaints related to the CCO should be brought to the attention of the CEO of CFM. The CCO will maintain records of any complaints and accompanying responses for at least five years.

CFM does not generally admit retail investors and does not expect to have any MiFID-eligible complaints.

### Mediation

Where a Client or investor deems CFM's response unsatisfactory, they can reach out free of charge their relevant local complaints authority, including:

#### 1 France

**Médiateur de l'Autorité des Marchés Financiers**  
17 place de la Bourse, 75082 Paris Cedex 2  
<https://www.amf-france.org/Le-mediateur-de-l-AMF/Presentation>

#### 2 Australia

**Australian Financial Complaints Authority**  
GPO Box 3 Melbourne VIC 3001  
[info@afca.org.au](mailto:info@afca.org.au)  
+61 1800 931 678  
<https://www.afca.org.au/>

#### 3 UK

**The Financial Ombudsman Service**  
Exchange Tower, London E14 9SR  
[complaint.info@financial-ombudsman.org.uk](mailto:complaint.info@financial-ombudsman.org.uk)  
+800 023 4567  
+44 20 7964 0500 (call from outside the UK)  
<http://www.financial-ombudsman.org.uk/>

#### 4 USA

**U.S. Securities and Exchange Commission**  
Office of Investor Education and Advocacy  
100 F Street, N.E.  
Washington, DC 20549-0213  
+1 202-551-6500  
Fax: +1 202 772-9295  
<https://www.sec.gov/oiea/Complaint.html>

Note: The summary of CFM policies described above is updated whenever each relevant policy changes. The policies can be obtained upon request to Capital Fund Management SA.

### For further details



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Based in Paris with staff in London, New York and Sydney, we work in partnership with our clients worldwide. Find out more at: [www.cfm.com](http://www.cfm.com)