

## Best Execution Policy - IE&B Funds and Mandates

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## Document information

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## Definitions

### AIFMD

Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers, including delegated or implementing Acts and/or Regulations.

### Broker

A credit institution, a regulated investment firm or another entity subject to prudential regulation and ongoing supervision, offering services to professional investors primarily to finance or execute transactions in financial instruments and which may also provide other services such as clearing and settlement of trades, custodial services, securities lending, customised technology and operational support facilities.

### Client

A (legal or natural) person that invests in one or more Triodos IM Funds or to whom Triodos IM provides certain investment services.

### Conflict of Interest

A situation in which someone may potentially not be able to make a fair and objective decision or perform an action because he/she may be directly or indirectly affected and/or benefitted by the decision's or action's result.

### Discretionary Asset Management

Means managing portfolios in accordance with mandates given by Clients on a discretionary Client-by-Client basis where such portfolios include one or more Financial Instruments.

### ESMA Guidelines

The applicable guidelines issued by ESMA, as amended from time to time.

### Financial Instruments

All instruments as defined in MiFID II (Annex I, Section C), among others transferable securities (such as (certificates of) shares, bonds), units in collective investment undertakings and derivatives.

### Investment Advice

Means the provision of personal recommendations to a Client, either upon its request or at the initiative of the investment firm, in respect of one or more transactions relating to Financial Instruments.

### Mandates

Discretionary management of assets in accordance with mandates given by professional Clients on a Client-by-Client basis where such portfolios include solely exchange traded Financial Instruments. All services and activities are listed in MiFID II (Annex I, Section A) and are relating to any of the Financial Instruments listed in MiFID II (Annex I, Section C). Although from a legal perspective Discretionary Asset Management is considered a service, Triodos IM treats the service as a product with the name Mandates. The service of offering Mandates is covered by this policy.

## MiFID II

Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in Financial Instruments.

### Reception and Transmission of Orders (RTO)

The reception and transmission of orders in relation to one or more Financial Instruments.

## UCITS Directive

Directive 2014/91/EU (UCITS V) amending Directive 2009/65/EC (UCITS IV) of the European Parliament and of the Council of 13 July on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable schemes, including delegated or implementing Acts and/or Regulations.

## Wft

Dutch Financial Supervision Act (Wet op het Financieel Toezicht), effective as of 1 January 2007, as amended from time to time.

# 1. Introduction

## 1.1. Introduction

Triodos Investment Management B.V. (Triodos IM) holds a license to manage investment funds as described in Article 2:65 sub a of the Financial Supervision Act (for Alternative Investment Funds) and article 2:69b, section 1, sub a of the Financial Supervision Act (for UCITS), allowing it to perform activities as manager of investment funds as well as to offer investment services based upon article 2:67a, section 2 of the Financial Supervision Act (MiFID-services, like Discretionary Asset Management, Investment Advice and Reception and Transmission of Orders in relation to Financial Instruments). These so-called MiFID-services are offered to professional Clients.

Triodos IM does not execute orders itself but transmits orders (via Brokers) for the account and risk of its professional Clients and the investment funds it manages (hereinafter: funds) in equities and fixed-income instruments. In all cases, the order results from decisions by Triodos IM to trade in Financial Instruments on behalf of its Clients or the managed funds.

Although Triodos IM is not formally bound by the specific requirements of MiFID II (Article 27(1)) with respect to best execution, Triodos IM is committed to act honestly, fairly and professionally in the best interests of its Clients. Triodos IM believes it can give substance to this by observing the principles relating to 'best execution' in accordance with the MiFID requirements. De facto, it therefore also complies with the general requirements formulated in the AIFMD (Article 12(1)).

## 1.2. Purpose & Objective

In order to achieve best execution, Triodos IM Impact Equities & Bonds (IE&B) at all times takes all sufficient steps to strive for the best possible result for Clients when for equities placing orders to Brokers in order to be executed and for fixed income executing trades with selected Brokers as counterparty.

IE&B places orders resulting from investment decisions in the context of managing investment funds and Discretionary Asset Management for professional investors.

For equities, IE&B itself does not execute orders but routes (submits) its orders to Brokers in order for these parties to execute them. For fixed income, IE&B executes orders via an electronic trading system (TSOX) with a limited group of selected Brokers. This policy describes the three-step process of (i) selecting appropriate Brokers (forming the so-called "Approved Broker List"), (ii) for equities, directing orders to individual Brokers and the measures IE&B takes to monitor and strive for best execution by third parties when submitting orders to Brokers for execution, for fixed income, executing the trades at the best price, in the interest of the Client, conditionally to market circumstances and the volume traded and (iii) evaluating Broker executions.

IE&B will use this policy as a reference guide for directing orders to Brokers and best execution for fixed income. IE&B will take all necessary and sufficient steps to ensure all orders on behalf of all Clients are executed under the best possible circumstances for the Client. Best possible circumstances entail that IE&B strives to direct orders such that they are executed at the best possible location, against the best possible price, against lowest expected trading costs and with low expected market impact.

TIM will make this policy available for investors through its website. Furthermore, a periodic report on the quality of order execution via our Brokers will be made available. This will be done by annually publishing the RTS 28 report which lists the 5 biggest trading venues for each strategy on the [www.triodos-im.com](http://www.triodos-im.com) website.

## 2. Scope

### 2.1. Scope of this policy

The scope of this Best Execution Policy for IE&B Funds and Mandates is: all orders in listed debt (fixed income), listed equity (equity) and UCITS securities that are traded on regulated markets

- resulting from collective investment management; or
- resulting from Discretionary Asset Management for professional investors.

### 2.2. Laws & regulations

This policy is based on (i.a.) the following laws and regulations:

#### 1. EU regulation and other:

- Undertakings for Collective Investment in Transferable Securities Directive (UCITS)
- Markets in Financial Instruments Directive (MiFID II)
- ESMA Guidelines on Best Execution (ESMA Guidelines)

#### 2. Dutch law and other:

- Financial Supervision Act (Wet op het financieel toezicht or Wft).

## 3. Approved Brokers

### 3.1. Approved Broker List

IE&B can and may only place orders at Brokers or trade with Brokers that are on its Approved Broker List (ABL).

### 3.2. Broker Approval Committee

The ABL is owned and reviewed by the Broker Approval Committee (BAC), which consists of at least four members, with representation from the Front Office Support, Fund Management (Front Office) and Risk Management & Compliance.

The BAC reviews the ABL at least annually or whenever organizational or regulatory developments so dictate, e.g. in the case of adding Brokers in between reviews. IE&B will always demand “best execution” for the execution of its orders by and with approved Brokers and can ask the Brokers to communicate their respective best execution policies to Triodos.

Brokers submitted to the BAC for approval (and hence inclusion on the ABL) will be evaluated based upon the following factors:

- a) investment strategy of the fund or Mandate for which orders are being directed, risk-reward considerations, other specific requirements as stated in the SICAV I Sub-fund prospectus or Mandate Investment Management Agreement and all other relevant aspects for execution of the order.
- b) track record and market reputation e.g. alignment of partnership, to be determined by IE&B
- c) possibility of reputational risk e.g. controversies with respect to TIM compliance/principles
- d) violation of Triodos Minimum Standards to be discussed with Broker
- e) financial stability e.g. credit rating, preferably investment grade
- f) MAD/MAR compliance verified annually by contacting Brokers about issues
- g) MiFID II Compliance The Broker’s best execution policy is checked on MiFID II compliance at onboarding and is annually reviewed

- h) The ABL, which gives the counterpart constituents of the Brokers approved in the BAC, will be maintained and updated by the BAC. The ABL scoring card and rankings of the Brokers evaluated will be kept on record by the BAC.

### 3.3. ABL and Broker Review

IE&B will review the ABL at least annually, the validity of scores of its constituents and the quality of execution provided. Ad hoc reviews can be decided upon when perceived necessary, i.e. when a Broker is subject to adverse media or has been fined by a supervisor.

A key ingredient of the review is Trade Cost Analysis, which is explained in paragraph 3.4 below. Once the scorecard and Broker review have been completed, the proposed (new) ABL will be submitted to the BAC. The BAC will approve the ABL. IE&B will communicate the result of the Broker review to individual Brokers and discuss the results if needed.

## 4. Routing orders

### 4.1. Broker Selection Criteria

IE&B will only route orders for execution to Brokers that have been approved on its ABL. The criteria used for selection of Brokers will be done in general and also per financial instrument that will be traded. The general and specific requirements for choosing a Broker per Financial Instrument are listed below.

1. price at which the order can be executed
2. costs of execution (Broker fees plus any other fee or commission, bid-ask spread in case of fixed income))
3. market impact of the trade
4. quality of execution & settlement i.e. speed of execution, likelihood of execution & settlement
5. venue of execution
6. type of order (limit price, VWAP, IS, etc.)
7. nature & liquidity of Financial Instrument

The following factors are also taken into account when selecting a Broker to route an order to: the investment strategy of the fund or Mandate for which orders are being directed, risk-reward considerations, other specific requirements as stated in the SICAV I Sub-fund prospectus or Mandate Investment Management Agreement and all other relevant aspects for execution of the order.

Allocating orders will in straightforward cases mostly depend on factors 1-3, in more complicated instances (e.g. less liquid instruments) other factors will be taken into consideration as well. Estimates of the three dominant criteria i.e. price, trading cost, and market impact (given the desired execution strategy) are weighted equally in determining the approved Broker and how to route orders to a Broker.

IE&B shall take all reasonable measures to ensure that the best possible result for its Clients is achieved when it places orders to Brokers to be executed. When placing an order, specific elements are assessed for different Financial Instruments:

Fixed income:

Fixed income trades are generally executed over-the-counter (OTC) and as such there are no fees or commissions, but rather all counterparties quote a bid-ask-price instead. This means that the best quote offered for execution of a trade is the main determinant in executing an order with a specific Broker. IE&B always requests a quote from several competing parties, which are recorded.

- Trade Cost Analysis (TCA)                      quality and speed of execution
- Coverage    market depth & breadth provided by Broker
- Quality     quality of service, timely matching/settlement

*Note that for fixed income, there is no Broker fee involved as this is incorporated in the bid-ask spread of trades.*

Equity:

Equity trades are generally executed via regulated markets and hence costs of execution such as fees & commission as well as expected market impact are main determinants in allocating trades to a specific Broker.

- Cost    scoring of fee charged in bps by Broker
- Trade Cost Analysis (TCA)                      quality and speed of execution
- Coverage    market depth & breadth provided by Broker
- Quality     quality of service, timely matching/settlement

Orders for professional investors portfolios (Mandates) are always placed in such a way that the selected Broker executes them in line with the Investment Management Agreement; and for the funds, orders will be routed such that they are in line with the prospectus.

Since Mandates will be structured to follow the investment funds, typically and generally as 1-1 copies, orders will be similar in nature and hence can and will be bundled for efficiency. This way, potential Conflicts of Interest of unequal treatment of Clients are also minimized or eliminated as trades for all types of Clients will be done simultaneously, in similar direction (buy or sell), with the same selected Broker and under similar (market) circumstances. In case of incomplete order executions, executed trades will be allocated to the fund and Mandates on a pro rata basis (see below).

#### 4.2. Aggregation & Allocation

As mentioned above, IE&B will aggregate orders of Clients to be sent to executing Brokers or executing orders with Brokers, when this can be reasonably expected to result in a better price and/or lower costs for the Client. The allocation of executed aggregated trades amongst Clients is pre-determined when submitting such an order to a Broker. When an aggregated order is partly executed, allocation amongst Clients will be done on a pro-rata basis according to this pre-determined allocation.

There is one exception regarding the pro-rata principle: odd lots (i.e. when calculating pro-forma allocation results in number of securities that is not a rounded multiple of lot size) may cause rounding issues when calculating pro-rata allocations (as odd-lots of e.g. 1000 shares cannot be split into individual shares). In case of odd lots preventing a full percentual pro-rata allocation, the allocation used will be the nearest alternative given the lowest odd lot possible for the specific instrument.

#### 4.3. Special Market Conditions

IE&B can deviate from the regular procedures for placing orders to Brokers that are on the ABL if special market circumstances so dictate in order to achieve a best possible price for Clients. Special market conditions usually have a severe impact on market volumes and liquidity and thus often prevent regular pricing. Examples of special market conditions are (i) extreme capital market volatility, (ii) system failure, (ii) force majeure (natural disaster, war, terrorist attack).

#### 4.4. Broker Execution Review & Trade Cost Analysis

IE&B will review the Brokers on compliance with TIM's and the Broker's own best execution Policy and will evaluate Broker execution quality (costs, performance vs. order benchmarks, market impact, outliers, etc.) and trades execution quality for fixed income at least annually in a Trade Cost Analysis (TCA) performed by IE&B, which is kept on record for 5 years.

Compliance will review whether there are outliers in transaction executions, and IE&B will assess whether Brokers executed as expected relative to expectations and benchmarks. Execution data of all Brokers on the ABL will be discussed, and an aggregated TCA will give an overview of how the best possible trading and execution results were obtained for Clients in the funds.

Order trail data (e.g. trade instructions and received quotes from Brokers for specific trades) will be stored for a period of five years.

#### 4.5. Reporting & Regulatory Technical Standards 28 Report (RTS 28)

IE&B will annually report about the quality of the execution of the orders for each Financial Instrument to its Clients and will report on the top 5 trading venues selected based on trading volumes. This will be done by annually publishing the RTS 28 report on the [www.triodos-im.com](http://www.triodos-im.com) website. In this report IE&B will also report on the general quality of the execution of orders on the specific venues used by its Brokers.

In case a fund or Mandate Client asks IE&B if the execution of a certain order was in line with the Broker's best execution policy, IE&B will ask the executing Broker for this information or provide the Client with the relevant TCA report. The Broker and/or TIM will then demonstrate that the order execution was in line with its best execution policy.

All professional Clients approve this policy by signing their respective Investment Management Agreements. The most recent version of this policy will be published on the [www.triodos-im.com](http://www.triodos-im.com) website.

### 5. Ownership & Maintenance

This policy is owned and maintained by the director of IE&B and will be reviewed every year, or earlier in cases of regulatory, organizational developments or significant changes in order execution factors. The policy will be adjusted when needed based on this review. This document or any changes thereto need to be approved by the MB. The Compliance department coordinates the maintenance process of all applicable Triodos policies and governance documentation.

## 6. RACI

Task	Responsible	Accountable	Consulted	Informed
Manage policy				
Review and update of this policy	Director Impact Equities & Bonds	Managing Director responsible for IE&B	RM&C	NFRC
Approval of updates	Managing Director responsible for IE&B	Management Board	NFRC	NA
Create required procedures and implement	Director Impact Equities & Bonds	Managing Director responsible for IE&B	RM&C	Co-workers
Best execution				
Compose trades	Fund Manager Triodos I Sub-fund	Director IE&B	NA	NA
Best execution of trades	Department of selected Broker / Fund Manager Triodos SICAVI sub fund	Management of selected Broker / Director IE&B		RM&C NFRC
Provide training & awareness				
Train Co-workers	Director Impact Equities & Bonds	Managing Director responsible for IE&B	RM&C	NFRC
Monitor on Compliance				
1 <sup>st</sup> line monitoring of best execution	Fund Manager	Managing Director responsible for IE&B	Brokers	RM&C
2 <sup>nd</sup> line monitoring compliance with best execution policy	Compliance Officer	Managing Director Risk & Finance	Fund Managers IE&B	NFRC Management Board
Report on Compliance				
Report on mitigation of best execution risks	Compliance Officer	Managing Director Risk & Finance	Fund Managers IE&B	NFRC Management Board Group Compliance Audit