Best Execution Policy
AS KIT Finance Europe
(New Edition)

Approved by
the Management Board of AS KIT Finance Europe
Resolution №1.5-32P dated 18.10.2018

Tallinn
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1. GENERAL PROVISIONS

1.1. This Best Execution Policy (hereinafter - the Policy or Best Execution) sets out arrangements for complying with the overarching best execution obligations and guidelines for execution of orders in financial instruments by AS KIT Finance Europe (hereinafter - the Company) as required by EU applicable legislation and legislation of the Republic of Estonia.

1.2. The Policy is approved by the Management Board of the Company (hereinafter – the Management Board) and yearly reviewed. If any changes have accrued affecting Best Execution, the Management Board will consider making changes to this Policy. The Company notifies the Clients of any material changes to Best Execution Policy through Personal Account, official website or email.

1.3. Upon review of the rules and measures and determination of the need to make changes, it shall also be assessed whether the execution venues chosen by the Company provide for the best possible result for the client, taking account of, inter alia, the information, which is published by operators of a trading venue.

1.4. The Policy is an integral part of the Contract. The information on Best Execution is available to the Clients or potential Clients on the Company’s website www.kfe.ee. Any changes to Best Execution procedures shall be made in accordance with the procedure stipulated in the Terms and Conditions. The Client shall acknowledge and agree to the content of this Best Execution Policy whenever the Client places an order with the Company following receipt of this Policy.

1.5. The Company answers clearly and within reasonable time to requests of Clients for information about this Policy.

2. DEFINITIONS

2.1. The following terms used in the text of the Policy have the meanings brought below:

**Contract** – an investment services contract entered into between the Client and the Company that sets out the respective rights and obligations of the Company and the Client for provision of investment and ancillary services.

**Employee** – an employee of the Company, Branch or Representative Office.

**MiFID II** - Markets in Financial Instruments Directive 2014/65/EU.

**Retail Client** – a Client of the Company, who is categorized by the Company as a retail Client in accordance with the Terms and Conditions.

**Professional Client** – a Client of the Company who is categorized by the Company as a Professional Client in accordance with the Terms and Conditions.

**Sizable order** – a large order compared to the market liquidity.

**Specific instruction** – an order submitted by a Client with predetermined parameters.

**Terms and Conditions** – the terms and conditions of rendering investments services by AS KIT Finance Europe published on the Company’s website www.kfe.ee.

**Trading venue** – a regulated market, a multilateral trading facility (hereinafter – MTF), organised trading facility (hereinafter - OTF), a systematic internalizer or a market maker or other liquidity provider or a third country person that performs a similar function in a third country to the functions performed by any of the foregoing persons.

**Trading terminals** – terminals provided to the Clients to facilitate the market access

**OTC Securities** – securities that are not actively traded on regulated markets

2.2. Terms not defined in the present definitions and the Terms and Conditions shall be used in the meanings set forth in regulatory documents and legislation regarding securities, derivatives and other financial instruments, as well as adopted in business practice.

3. SCOPE OF THE BEST EXECUTION POLICY
3.1. The Policy applies to Professional and Retail Clients, who enter into Contracts and make orders to the Company for provision investment and ancillary services. This Policy does not apply to the Eligible counterparties and also in cases, where trades are conducted according to other agreements and/or standard market practices.

3.2. The Policy requirement applies to all transactions including derivative and REPO transactions. The Policy covers financial instruments as defined by MiFID II Annex 1 section C and offered for trading by the Company.

3.3. If the Company receives the Specific instruction from the Client, the Company will follow such Specific instruction, which might prevent the Company from following the procedures set out in this Policy to obtain the best possible result for the execution of those orders. This Policy will, however, still be applicable for the part of the execution of the order, which is not altered by those Specific instructions.

4. BEST EXECUTION

4.1. General Procedures

4.1.1. The Best Execution rules require the Company to take all sufficient steps to execute Clients’ orders in the best possible way taking into account transaction price, transaction costs, speed of execution, likelihood of execution and settlement, transaction size, type of security and other order details.

4.1.2. The Company implements processes and procedures, which, in the Company’s view, sufficiently ensure that the Best Execution outcomes can be successfully achieved on an ongoing basis.

4.1.3. In order to fulfill the Best Execution requirements, the Company has implemented the following procedures:

- Selection and assessment of suitable Prime-brokers and other execution counterparties;
- Selection and assessment of suitable Trading venues;
- Clients classification;
- Assessment of order execution arrangements.

4.2. Prime-Brokers and Execution Counterparties Selection

4.2.1. The Company selects its Prime-brokers for each asset class by their adherence to Best Execution services, width of the product offering, availability of technical solutions and the cost structures that enable better pricing for the Clients. The Company regularly conducts reviews of the Prime-brokers’ ability to provide Best Execution and their ability to enable the Company to fulfil its obligations under regulatory requirements and this Policy.

4.2.2. Selected Prime-brokers are subject to approval by the Management Board.

4.2.3. Other execution counterparties are subject to the compliance control performed by the compliance department and credit limit approval by risk management of the Company. The list of counterparties is regularly reviewed and yearly updated. To achieve Best Execution in the over-the-counter (hereinafter - OTC) market, the counterparty for order execution is selected from the list on ad hoc basis, given their indicative pricing, costs and the Company’s past experience in trading particular products with these market participants.

4.3. Trading Venue Selection

4.3.1. The Company selects suitable trading venue for order execution applying sufficient effort to ensure that the best result for the Client will be achieved.

4.3.2. For exchange-traded products, the default venue choice is the regulated exchange due to the highest transparency and most competitive pricing given the Company’s scale and frequency of transactions. After the regulation and transparency criteria the Company considers the exchange with most liquidity. In case of fragmented markets, the Company relies on smart routing provided by its Prime-brokers, which in turn, are selected if committed to Best Execution. Smart routing allows to select the venue with the best bid or ask among the available ones.
4.3.3. For OTC products, the Company takes into consideration the liquidity and likelihood of execution and settlement as well as other circumstances relevant to the selection of MTF, OTF, Market maker or systematic internalizer for the specific order. The company does not commit to trade on a single venue and will select the counterparty for each order separately as described in this Policy. The Company has a limited list of venues for instruments such as structured products, OTC derivatives and others OTC products.

4.3.4. Quality of execution is monitored for top venues for each financial asset class as set in this Policy.

4.3.5. The Client shall acknowledge and agree to the exchange fees before placing an order. The exchange fees and other expenses will be added according to the Client’s exchange selection and settlement type. More information about Company’s fees may be found in Tariffs of AS KIT Finance Europe (Annex 11 to the Terms and Conditions of Rendering Investment Services) published on www.kfe.ee.

4.4. Client Classification

4.4.1. Retail Client’s Best Execution result, in the absence of Specific instructions, is estimated on the basis of total costs that consist of security price and direct commissions. Direct commissions are transaction-related expenses such as exchange commissions, clearing and settlement fees and third-party commissions. When the Client’s commission for conducting and settlement of the transaction is predetermined by the Contract, only the price is considered.

4.4.2. For a Professional Client Best Execution assessment is more complex and includes consideration of factors such as speed of execution, transaction volume, order type and type of security.

4.5. Determining the Importance of the Factors

4.5.1. When executing Clients’ orders, the Company takes into account the following information for determining the importance of the factors referred to Best Execution:

- Market price of the security
- Peculiarities of the financial instrument
- Trading hours of markets
- Speed of execution of the transaction
- Market depth and liquidity
- Likelihood of the transaction or settlement
- Size of the order
- Transaction execution costs
- Order types
- Specific instructions by the Client
- Client type
- Impact on the market
- Other circumstances affecting the efficient execution of order (including the current market conditions)

4.5.2. Depending on the circumstances, the Company keeps the right to determine the degree of significance of each factor. Price will usually be the most important factor for all Clients. The Company will take into account prevalent middle market prices when executing an order. For Retail Clients the Company will also consider other costs such as fees and commissions to determine the best execution method. Speed is the second most important factor. Unless instructed otherwise, the Company will try to balance the market impact of executing immediately versus the timely execution of an order. Likelihood of execution and size are the third most important factor. It is more important for situations where liquidity is constrained and being able to execute at a later time at a similar price is less certain.

4.5.3. The factors such as speed and the likelihood of settlement, the type of the order and other factors are less important than the volume of the order, the speed of execution and total cost for the Professional Clients.

5. ORDER HANDLING
5.1. The company executes Clients' instructions and orders in the order of their appearance.

5.2. Market Access

5.2.1. The company is not member of any exchange or trading venue. The Company uses Prime-brokers, in particular, with DMA access to fill Clients’ orders for exchange-traded products.

5.2.2. Clients place the orders filled electronically at market bid-offer prices visible to other market participants. In this case, the Company deems that it fulfils its Best Execution responsibilities, while the Client has submitted Specific order and determined the appropriate price, quantity and other parameters of an order to gauge the likelihood of an order being filled given the prevailing market conditions.

5.2.3. The Company does not generally use own automated order routing systems or algorithmic order execution solutions.

5.2.4. The Company monitors the Clients’ transactions in order to identify infringements.

5.3. Exchange-Traded Securities

5.3.1. Orders communicated to the Company by means other than trading terminals for exchange-traded securities are executed through brokers with, in particular, DMA access on regulated Trading venue unless instructed otherwise. If the Company is sufficiently confident that the volume of the Client’s order is too large in comparison to liquidity available (sizable order) in the regulated market, it may decide that it is not in the Client’s interest to execute on that venue.

5.3.2. The Company may route an order to a single trading venue or automated order routing systems1 or provided by the Prime-broker depending on the characteristics of the order.

5.3.3. Hereby, the Company notifies the Client on the opportunity to execute the order out of the regulated market or MTF. The Client should understand the consequences of this trade, for example, counterparty risk arising from execution outside a Trading venue. The Company has to provide additional information about the consequences of this means of execution upon Client’s request.

5.3.4. Where the Company invites Clients to choose a trading venue, fair, clear and not misleading information shall be provided to prevent the Client from choosing one trading venue rather than another on the sole basis of the price policy applied by the Company.

5.4. OTC Securities

5.4.1. Unless the Client clearly instructs the Company otherwise, the Client will be treated as having provided explicit consent to trade on OTC markets. The Company will execute Client’s Orders OTC, if it is believed that the result of such execution corresponds to the Client’s best interest (i.e. it offers the Company flexibility to choose from a wider range of Execution Venues).

5.4.2. For the OTC securities the Company relies on indicative pricing by various counterparties, price disseminations by market data providers as well as on own knowledge and analysis in order to determine reasonable price of a particular instrument to achieve Best Execution.

5.4.3. The Company requires its Employees dealing with the Clients’ orders to compare at least three counterparties for the factors relevant to the Client’s order specified in clause 4.5 of the Policy.

5.4.4. The Company will use execute transactions on MTFs, OTFs, Systematic Internalizers or OTC.

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1 MiFID II Delegated Regulation stipulates that algorithmic trading should refer to the automated optimization of order execution processes, in addition to the automatic generation of orders. This includes smart order routers (SORs) only in conjunction with the use of algorithms that determine parameters of the order beyond venue identification. It does not include automated order routers (AORs) where they only determine the venue without changing any other parameter of the order.
5.4.5. In case of absence of interest to the security specified in the order among the available counterparties, the order may be transmitted to other company belonging to KIT Finance Group for execution. The Company will treat Group companies equally with other counterparties and withdraw the transmitted order if during order monitoring it determines that the order can be executed more advantageously elsewhere. The Company believes that such arrangement can improve execution in situations where the Company lacks expertise in a particular instrument.

5.4.6. In case of OTC securities, trading is performed through the Company or with the Company, and the Client has to accept the terms and conditions of the transaction. Furthermore, the Client may have accepted the published indicative price for the execution of the transaction. In such case, the Company follows the principle, that if the Client has accepted the price offer or indicative price given by the Company, the Company has obtained the Best Execution for the Client. Upon making the price offer, the Company takes into account the reasonable price, the costs for the Company, risks and fees.

5.4.7. Provisions for the sizable orders set out in clause 5.7 of the Policy also apply to the OTC products.

5.4.8. Clients are informed that counterparty risk may occur in case the order is executed outside a Trading Venue.

5.5. **Carrying Out Client Orders**

5.5.1. The Company satisfies the following conditions when carrying out Clients’ orders:

- ensure that orders executed on behalf of the Clients are promptly and accurately recorded and allocated;
- carry out otherwise comparable Clients’ orders sequentially and promptly unless the characteristics of the order or prevailing market conditions make this impracticable, or the interests of the Clients require otherwise;
- promptly inform the Retail Client about any material difficulty relevant to the proper processing of orders;
- after order execution on behalf of the Client inform the Client where the order was executed.

5.5.2. The Company monitors its projected ability to deliver on the settlement date and puts in place remedial measures if this cannot be done. The Company monitors and promptly requests undelivered securities outstanding on the settlement day and beyond.

5.5.3. Clients are encouraged to consider the use of limit orders in lieu of market orders as market orders are susceptible to being filled at prices far lower/higher than the current displayed bid/ask particularly under volatile market conditions, in the case of large order quantities and/or orders involving illiquid products. To protect the client as well as Company from losses associated with significant and rapidly changing prices, Investment Company may simulate client market orders as market with protection orders, establishing an execution cap percentage points beyond the inside bid/ask. While this cap is set at a level that is intended to balance the objectives of execution certainty and minimizing price risk, there exists a remote possibility that the execution will be delayed or may not take place. In addition, it should also be noted that certain exchanges impose, as a protective measure, their own price caps or bands upon market orders, at levels which can be more or less restrictive than those imposed by Company and which may similarly affect the speed and certainty of order execution.

5.5.4. Client agrees that the Company may not immediately make public any limit order placed with the Company in respect of shares admitted to trading on a regulated market, where that order cannot immediately be executed.

5.5.5. If the Client’s limit order related to shares admitted to trading on a regulated market is not immediately executed due to prevailing market conditions, the Company makes this order immediately public in a manner, which is easily accessible to other market participants in order to ensure the earliest possible execution of this order, unless the Client expressly instructs otherwise.

5.5.6. The Client’s limit order on a trading venue will be cancelled in 90 days, if it is not executed earlier.
5.6. **Settlement of an Executed Order**

5.6.1. The Company is responsible for the overseeing or arranging the settlement of an executed order.

5.6.2. Employee responsible for the settlement should take all reasonable steps to ensure that any Client securities or Client funds received in settlement of that executed order are promptly and correctly delivered to the account of the appropriate Client.

5.7. **Sizable Order**

5.7.1. If the order submitted by the Client is large relative to liquidity currently available in the market, the Company will treat it as a Sizable order.

5.7.2. The execution of the Sizable order may increase volatility and affect liquidity of the market, which will prevent the implementation of the procedure for Best Execution.

5.7.3. The Company keeps the right to execute the order in parts and decide on proportions to avoid market fluctuations.

5.7.4. Sizable orders may diverge based on the type of instrument, place of execution and market conditions. Therefore, the volume and the procedure for Sizable orders are not specified in this Policy. The Sizable order’s specifications are determined by the special expertise of the Brokerage department or the decision of the Management Board.

5.8. **Low Liquidity Products**

5.8.1. The Company will notify the Client on significant price fluctuation and the fact that Best Execution rules cannot be honored for orders placed in instruments whose liquidity is low or which are not traded on a regulated market.

5.8.2. The Company will advise the Client to find the counterparty for the transaction her/himself and will assist in settlement or will offer other counterparties.

5.9. **Order Transmission Failures**

5.9.1. Technical problems may result in IT infrastructure failure and restrict the ability of the Company to receive, transmit and execute Clients’ orders.

5.9.2. Should this situation occur, the Company must notify the Clients by means determined in the Terms and Conditions.

5.9.3. All Employees must act in accordance with the Business continuity policy to restore the ability of the Company to provide services.

5.10. **Other Provisions**

5.10.1. The misuse of information related to pending Client’s orders is prohibited. The Company takes all reasonable steps to prevent the misuse of such information by any of its relevant persons.

5.10.2. The Company or its related parties are prohibited to receive any remuneration, discount or non-monetary benefits for routing Clients’ orders to a particular Trading venue, which would infringe the requirements on avoiding of conflicts of interest.

5.10.3. The information misuse and conflict of interest are regulated by the Internal Policy and Code of Ethics of the Company.

5.10.4. Upon provision of services the Investment firm pays or receives monetary or non-monetary remuneration to or from third persons only if such remuneration by its nature or proceeding from its functions does not create a conflict of interests between The Company and the Client, is designed to enhance the quality of the relevant service to the Client, and does not impair compliance with the Investment firm’s duty to act honestly, fairly and professionally in accordance with the best interest of its Clients.
5.10.5. The Company must not structure or charge commissions in such a way as to discriminate unfairly between execution venues.

5.10.6. Where the Company applies different fees depending on the Trading venue, the Company explains these differences in order to allow the Client to understand the advantages and disadvantages of the choice.

5.10.7. The Company shall only receive third-party payments that comply with requirements of MiFID II and shall inform Clients about the inducements that the Company may receive from the Trading venues. The Company shall specify the fees charged by the Company to all counterparties involved in the transaction, and where the fees vary depending on the Client, the information indicates the maximum fees or range of the fees that may be payable.

5.10.8. Where the Company executes orders for Retail Clients, it provides those Clients with a summary of the Policy, focused on the total costs they incur. The summary also provides a link to the most recent execution quality data published for each Trading venue listed by the Company.

5.10.9. At the request of the Client, the Company proves to the Client that the Company has executed the Client’s order in compliance with this Policy. The Company answers to the Client’s request in accordance with Article 20 of the Terms and Conditions of Rendering Investment Services.

6. RECORDS KEEPING AND REPORTING

6.1.1. In accordance with legislation requirements the Company provides annual public reports on the official website www.kfe.ee.

6.1.2. The Company makes public, on an annual basis, a summary of the top five execution venues where the Company executed Clients’ orders in the preceding year, in terms of trading volumes for each class of securities and on the quality of execution of transactions in these execution venues.

6.1.3. The Company informs the Clients in periodic reports where the orders were executed, details about prices, costs, speed and likelihood of execution for individual financial instruments. The Company keeps records regarding paid and received monetary and non-monetary remuneration with reasons required in accordance with this Policy.

7. COMPLIANCE AND CONTROL

7.1.1. The Company conducts regular checks of compliance with the Best Execution Policy including:

- assessment of compliance with regulatory changes;
- assessment of substantial changes which may damage the ability of the Company to achieve the best possible results upon the execution of Clients’ orders;
- assessment of the effectiveness of order execution arrangements, execution venues and Prime-brokers, taking account of, inter alia, data of reports published in accordance with clause 6 of the Policy, to ensure provision for the best possible result for the Client;
- assessment of quality and competence of Employees in performance of their functions.

7.1.2. If incompliance to the Best Execution Policy or regulatory requirements is detected, it should be recorded as an incident and resolved in accordance with the Incident Management Policy of the Company.

7.1.3. Control over implementation of Best Execution Policy is exercised on a regular basis by the Management Board, Compliance department and the auditor in accordance with their powers and in line with legislation.

7.1.4. The head of Brokerage department is responsible for the investigation and elimination of shortcomings and timely updates of this Policy. The Brokerage department is also responsible for the preparation and publishing the specified reports.