

NATIXIS BEST EXECUTION AND BEST SELECTION POLICY

(Last update: October 2016)

1 - Introduction

Pursuant to the regulations in force, Natixis SA (“Natixis”) takes all reasonable steps to obtain the best possible result for its Professional and Non-Professional Clients (“Clients”) when:

- either executing orders; or
- receiving and transmitting orders.

For this purpose, Natixis has set up an order execution policy applicable to financial instruments and a Best Selection policy applicable to intermediaries (“the Policy”) which allows obtaining the best possible result, when executing orders on behalf of its clients. This policy includes, for each category of financial instrument, information on the different venues where Natixis executes its clients’ orders and the factors impacting the choice of execution venues.

When Natixis does not directly execute orders on behalf of its clients, it has set up and implemented a selection policy applicable to its counterparties and third-party brokers in charge of executing these orders, in order to obtain the best possible execution for its clients.

Natixis must provide its clients with proper information regarding its Policy, which is available on Natixis website and brought to every new client’s attention.

2 - Principles of “Best Execution”

Execution Factors

Natixis takes all reasonable steps to obtain the best possible result when executing orders on behalf of its clients, taking into account the following execution factors:

- the price;
- the cost;
- the speed of execution;
- the probability of execution and settlement /delivery;
- the size of the order;
- the nature of the order; and
- any other consideration to be taken into account for its execution.

Execution Criteria

In order to assess the relative importance of the above-mentioned execution factors, Natixis takes into account available market information and its knowledge of each client’s characteristics. The relative importance of each one of these criteria can vary especially according to the characteristics of:

- the client;
- the order;
- the financial instruments subject to the said order;
- the execution venues where the orders can be executed;
- the market practices ruling the relevant type of transaction;
- Natixis’ commercial expertise (knowledge of the client, the market and the order characteristics, etc.); and
- the market information available at the time of execution.

Execution Venues

As part of the implementation of its execution policy, Natixis uses the following execution venues:

- Regulated markets;
- Multilateral Trading Facilities (MTFs);

- Natixis' own account;
- Natixis' third-party investment firms or subsidiaries, located or not in the European Economic Area; and
- External counterparties or brokers.

Please refer to the appendix for a comprehensive list of execution venues used by Natixis.

Natixis selects execution venues from the list above for each type of financial instruments, in order to obtain the "Best Execution". Natixis reserves the right to change any execution venue when it considers that it is appropriate to do so and to use other execution venues in accordance with its order execution policy.

The abovementioned execution venues are selected according to their liquidity and the probability of order execution.

3 – Scope of application of Best Execution

3.1. The "Best Execution" obligation applies whenever Natixis executes an order for the account of a Professional or Non-Professional Client, in a financial instrument covered by MIFID.

For non-professionals clients Natixis takes into account the total execution price as defined in Chapter 2.

3.2. When a Professional Client asks Natixis for a price as part of a transaction in a financial instrument (Request for Quote), the applicability on non-applicability of the Best Execution principle will depend on whether it is possible to consider that the execution of the Professional Client's order is actually made for the account of such Client, which will depend in turn on whether the Professional Client legitimately relies on Natixis to protect its interests regarding pricing and other aspects of the contemplated transaction.

To this end, in order to evaluate if a Professional Client is relying on Natixis to protect its interests, Natixis takes into account the following four considerations¹:

- 1) Which party initiates the transaction – Does Natixis approach the Professional Client or is the Professional Client the initiator of the transaction? Where Natixis approaches the Professional Client and proposes to enter into a specific transaction, it is more likely that the Professional Client will rely on Natixis to protect its interests. On the opposite, where the client initiates the transaction, it is less likely that the client is legitimately placing reliance on Natixis.
- 2) Questions of market practice and the existence of a convention to 'shop around' – Where market practice suggests that the Professional Client compares quotes by soliciting various service providers for the same transaction in order to generate competition between them, it is less likely that the Professional Client is legitimately placing reliance on Natixis to protect its interests.
- 3) The relative levels of transparency within a market – If a Professional Client does not have ready access to prices in a market in which Natixis operates, it is more likely that the Professional Client is placing reliance on Natixis. On the opposite, if a Professional Client's access to pricing transparency is broadly equivalent to that of Natixis, it is less likely that the Professional Client is placing reliance on Natixis to protect its interests.
- 4) The information provided by Natixis on its services and conditions of any agreement between the Professional Client and Natixis – Where these conditions and agreements with a Professional Client (such as the Natixis Terms Of Business or this Execution Policy) state that Natixis will provide Best Execution, it is more likely that the Professional Client is placing

¹ These considerations are described in the European Commission's answer to CESR regarding Best Execution in the context of MIFID (ESC-07-2007)

reliance on Natixis to protect its interests.

When an assessment conducted on the basis of the above four considerations determines that the Professional Client does not rely on Natixis to protect its interests, Natixis does not owe Best Execution to such a client. In such cases, the transaction is carried out on the basis of prices proposed by Natixis and accepted by its client. All the prices proposed by Natixis are based on Natixis' own market data, valuations and objectives, especially within the field of risk management. Acting as the client's counterparty, Natixis does not take the place of its client regarding the assessment of the most appropriate way to conduct such a transaction.

For example, products such as bonds which are not traded on a regulated market or on a market located outside the eurozone or an illiquid market, convertible bonds, OTC derivatives, financial contracts and structured products are traded by the Client with Natixis acting as a counterparty, which does not take the place of its client regarding the assessment of the most appropriate way to conduct such a transaction and therefore, Natixis considers the Best Execution does not apply.

3.3. Any specific request issued by a client regarding the order's price, execution venue or nature is considered by Natixis as a specific instruction. When agreeing to process such an order, Natixis executes it in accordance with the client's specific instruction(s).

Pursuant to the regulations in force, and in the event of specific instructions issued by the client, Natixis may not be able to take the steps – regarding the elements covered by the said instructions – provided and implemented within the framework of this order execution policy in order to obtain the best possible result for the execution of these orders. Nonetheless, the “Best Execution” may apply to the characteristics of the order which are not covered by the client's specific instructions.

3.4. The “Best Execution” obligation does not apply to Natixis clients or counterparties that are considered as Eligible Counterparties.

4. Measures to ensure the “Best Execution”

Regarding “shares and equivalent securities” financial instruments, Natixis uses order routing electronic systems, *Smart Order Router System* (SORS), made available by its brokers and aiming at routing the order to the execution venue which maximizes the probability of Best Execution.

If other requests are made by clients and/or in general, Natixis will take the best possible steps to execute orders in the client's best interest, in accordance with the execution factors and criteria defined above (see paragraph 2), unless otherwise specified by the client.

Processing system for specific cases

- **Electronic orders**

Natixis offers trading algorithms that it has developed or that third-party brokers provided (see Paragraph 6), in order to optimize prices, costs and order execution time. Regarding flows processed via these algorithms and according to the order nature and size as well as market conditions, Natixis makes a *DSA (Direct Strategic Access)* algorithm available, which allows clients to optimize directly their execution strategy.

Orders given and executed in *Direct Market Access* or *DMA* (the client select the execution venue) will be considered by Natixis as specific instructions. Consequently, the “Best Execution” does not apply.

- **Limit orders**

In the specific case of limit orders concerning shares admitted to trading on a regulated market which are not executed immediately in accordance with the prevailing market conditions, the order will be

routed to a venue allowing immediate execution, with the exception of orders whose size exceeds the market's standard one, unless specifically otherwise instructed by the client.

Evidence of the “Best Execution”

Upon request, Natixis can provide the client with any supporting evidence of the measures taken to obtain the “Best Execution” of the order executed on the client's behalf.

The quality of execution will be assessed as a whole (statistics supplied using a system to analyze costs of transaction over time) or on a case-by-case basis (audit trail).

5. Reception and transmission of orders: principles of “Best Selection” of third-party brokers and Natixis' counterparties

Without any specific instruction given by the client, Natixis may transmit an order received from the client for execution to a third-party broker or counterparty. Natixis takes all reasonable steps to obtain the best possible result, taking into account execution factors and criteria set out above (see Paragraph 2) and transmits orders to third-party brokers and counterparties that are able to meet the “Best Execution” obligation.

In the context of its order execution, reception and transmission services, Natixis selects counterparties or third-party brokers according to a criteria grid, the main criteria being:

- the quality of order execution systems;
- connectivity;
- financial soundness;
- the quality of Middle and Back Offices support teams;
- the documentation provided regarding execution and best selection policies;
- the quality of the relationship and the service offered.

Before establishing a contractual relationship with a new counterparty or an external broker, a preliminary analysis of the above criteria by the different parties allows to validate the choice of the counterparty. According to the business line taken into consideration, this analysis is formalized and supervised by a committee, “the Broker Committee”.

Taking into consideration each one of the above-mentioned criteria, a broker review is held.

Natixis “Broker review” committee meets annually in order to review the selection of existing counterparties or brokers. It analyses the possibility to incorporate new brokers or to stop working with an existing broker. An examination of this Best Selection policy is also conducted as soon as there is a significant change that has an effect on the ability of a local broker to obtain the best possible result.

The list of counterparties and third-party brokers is reported in the appendix. Upon request, the Client can obtain any additional information on these counterparties.

Natixis transmits specific instructions given by its Clients to third-party brokers. Third-party brokers remain under the Best Execution obligation towards Natixis for all the execution criteria that would not be covered by the specific instruction.

6- Aggregation of orders

If the Client consents to this execution policy, the Client gives Natixis its consent to aggregate its orders with those of other Clients, with a view to execute them simultaneously. Natixis makes sure that such aggregation globally is in the best possible interest of Clients and aggregates orders only when it is unlikely that such aggregation disadvantages its Clients. However, order aggregation may turn out to be disadvantageous for one of the Clients.

It may also be the case that, over the same period of time, Natixis has to execute orders that were given when Natixis was acting as a “*principal*” (orders given by Natixis) and as an “*agent*” (orders given by Natixis Clients). When an order given by a Client concerns a financial instrument that is also the subject of a response from Natixis to a request for quote or to an execution for another client or for the

account of Natixis, the Client is informed so that they give their agreement for Natixis to execute their order.

7 - Client's consent for executing transactions outside regulated markets or MTFs

Natixis is required to obtain the **prior express consent** of its Clients before being able to execute their orders outside a regulated market or a MTF (see definition in appendix). To this end, all Clients must give their consent by sending the attached form "Consent Form for execution of orders outside regulated markets or MTFs" duly completed and signed.

As part of order reception and transmission services, orders from clients transmitted by Natixis to third-party brokers for execution may be ultimately executed outside a regulated market or a MTF. In such a case, Clients are exposed to the counterparty risk of the broker involved.

8 - Client's consent on the Policy

Natixis must obtain its Clients' prior consent regarding the execution policy by any means. Clients will be deemed to have given such consents as soon as they give an order to Natixis.

9 - Monitoring of the Policy

Natixis regularly monitors, at least annually, the quality of its order execution procedure and its best selection policy. Among others, Natixis especially and regularly verifies whether this Policy is complied with and whether the execution venues it has selected provide for the best possible result for its Clients or whether the best execution and selection procedures need to be amended.

Natixis can thereby adjust its Policy in the event of substantial changes of one of these elements.

10 – Review and Update of the Policy

The terms of this policy are reviewed on a regular basis, at least annually, and whenever required by potential amendments which may affect Natixis' ability to obtain the best possible result. Natixis shall notify its clients without delay of any significant change to its policy via its website (www.natixis.com) or, following any other procedure, when expressly requested by the Client.

APPENDIX TO NATIXIS' BEST EXECUTION AND BEST SELECTION POLICY

Financial instruments covered by MIFID

Financial Instruments defined in Section C of Annex I of Directive 2004/39/EC of 21 April 2004 "MIFID".

Regulated market

Multilateral system, run and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments – in the system and in accordance with its non-discretionary rules – in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and systems, and which is authorized and functions regularly and in accordance with the applicable provisions.

Multilateral Trading Facilities (MTFs)

Multilateral system without the status of a regulated market which brings together multiple third-party buying and selling interests in financial instruments – in the system and in accordance with non-discretionary rules – in a way that results in transactions concerning these instruments. It may be managed by an investment services provider approved to operate a system of this kind or by a market operator with relevant authorization from a regulatory body.

List of execution venues

- NYSE Euronext: Paris, Brussels, Amsterdam, Lisbon
- Euronext LIFFE: Paris, Brussels, Amsterdam, London, Lisbon
- London (LSE)
- Frankfurt (Xetra and EUREX)
- Equiduct
- BATS Chi-X Europe
- Turquoise
- Tradeweb
- Milan Stock Exchange
- Madrid Stock Exchange
- SIX Exchange
- American Stock Exchange
- Athens Stock Exchange
- Australian Stock Exchange
- Canadian Stock Exchange
- MTS
- Hong Kong (HKSE, HKFE)
- Tokyo (TSE, TDEX, TDEX+)
- Osaka (OSE)

List of main counterparties and third-party brokers by alphabetical order:

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|-------------------------|-------------------------|
| - <u>BANCA IMI</u> | - <u>Morgan Stanley</u> |
| - <u>Banco Sabadell</u> | - <u>Neonet</u> |
| - <u>BARCLAYS</u> | - <u>NOMURA</u> |
| - <u>BNP</u> | - <u>RBC</u> |
| - <u>CSFB</u> | - <u>RBS</u> |
| - <u>DB</u> | - <u>SANTANDER</u> |
| - <u>GS</u> | - <u>SG</u> |
| - <u>HSBC</u> | - <u>UBS</u> |
| - <u>Instinet</u> | - <u>UNICREDITO</u> |
| - <u>JP Morgan</u> | |