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Best Execution Policy (BEP)

Version dated 05/2024



1 Introduction

This document describes the measures taken by LGT Bank Ltd. (including LGT Bank AG, Zweigniederlassung Österreich, LGT Bank AG, Zweigniederlassung Deutschland, LGT Bank Ltd., UK Branch and LGT Bank Ltd., Hong Kong Branch) (hereinafter referred to as the "Bank") to obtain the best possible result for its clients when executing orders in *financial instruments* as required by applicable regulatory requirements including Directive 2014/65 (MiFID II) and Regulation 600/2014 (MiFIR) of the European Financial Markets Regulation.

The information on the execution principles is tailored to the respective type of *financial instruments*. A list of the *execution venues* and brokers on which the Bank places significant reliance with respect to each type of financial instrument as well as the regular best execution reports¹ can be found at www.lgt.com/en/publications/downloads/. This list is not exhaustive and may change at any time.

The *italicised* terms are explained in section 6 "Definitions" at the end of this document.

2 Summary

2.1 Scope of validity

The following best execution policy (hereinafter referred to as "BEP") applies to orders from clients to buy and sell *financial instruments* that are received and forwarded by the Bank or executed directly at an *execution venue*. It also applies if the Bank buys or sells *financial instruments* in fulfilment of its obligations arising from a portfolio management mandate with the client for the client's account. The Bank adheres to the principles defined in this policy for all clients, irrespective of their classification as non-professional or professional clients. The BEP applies to all client orders relating to *financial instruments*, irrespective of whether the Bank is acting on behalf of the client, in a *riskless principal* capacity or as a contracting party in its own name and for its own account.

FX/PM spot transactions are not considered to be *financial instruments* under MiFID II and as such are therefore not in the scope of this policy. LGT Bank Ltd. is nonetheless committed to ensuring that its clients receive a fair price for these transactions too and includes those transactions in the principles defined in section 3.4 c), d) and e) as well as in the best execution monitoring process set forth in section 4.

When executing orders, the Bank shall adhere to the laws and regulations applicable for the respective *execution venue*. If a provision of the following BEP is contrary to these laws or regulations, then the corresponding law or regulation shall apply.

2.2 Order handling

Comparable orders are executed sequentially in accordance with their time of receipt unless the order characteristics or the prevailing market situation make this impossible or the interests of the client require a different procedure.

The Bank shall be entitled to aggregate client orders with own orders or with orders of any other clients. Orders shall only be aggregated where it is unlikely that the aggregation will be detrimental to the client. Notwithstanding this, it cannot be ruled out that the effect of aggregation may work to the client's disadvantage in relation to a particular order.

2.3 Relative importance of execution factors

The Bank takes into consideration the following execution factors to determine the best possible result for its clients:

- Price – this is the price at which a financial instrument is traded
- Cost – this includes implicit costs such as the possible market impact and explicit external costs (e.g. *execution venue*, broker and clearing fees) as well as the Bank's own fees
- Speed – time it takes to fully execute the client transaction
- Likelihood of execution and settlement – the likelihood that the Bank will be able to complete the client transaction
- Volume – the size of the transaction executed for a client and its effects on the execution price
- Nature of the transaction – this includes the type of transaction that is to be executed at the client's request and/or any other consideration relevant to the execution of the transaction

When executing orders from clients, the Bank will normally give weight to the factors of price and cost only. This means that the Bank's execution criteria focus primarily on the total consideration paid or received for the financial instrument as well as the costs incurred by executing the order (including clearing and settlement fees, plus any other fees). The Bank may, however, on occasion also consider other factors such as speed, volume, the likelihood of execution and/or settlement and the nature of the transaction where it considers this appropriate or necessary. The relative importance of other factors may vary. In specific cases, the Bank may place a higher importance on execution factors other than price and cost for obtaining the best possible result in accordance with this policy. In addition, the Bank reserves the right to intervene in the execution of orders that may have an adverse impact on the market (e.g. large orders). For further details, please refer to the product-specific policies.

¹ Top 5 Execution Venues and Top 5 Brokers Report (RTS28)

2.4 Selection of the best execution venue

In particular, the Bank shall rely on information provided by SIX Financial Information when choosing the best execution venue. However, the Bank may choose to select a different execution venue than the one proposed by SIX Financial Information, taking into consideration the order volume, the financial instrument and the market situation at the time the Bank receives an order, if this is likely to result in a better execution for the client. When transmitting orders to brokers for execution, the Bank also uses the *smart order routing (SOR)* offered by its brokers. The Bank may execute the order on an *RM*, via an *MTF*, via an *organised trading facility (OTF)* or via an organised trading platform outside the European Union or outside a trading venue (e.g. with a *systematic internaliser*). Trades executed outside a trading venue may increase the risk involved (specifically, the counterparty risk). This risk may result in a loss for the client if the counterparty is unable to fulfil its contractual obligations.

2.5 Transmitting orders to brokers for execution

Where the Bank transmits an order to a broker for execution, the Bank shall act in the client's best interests. Thus the Bank shall select the brokers most likely to deliver the best possible result for its clients. In particular, the Bank prefers brokers offering *smart order routing (SOR)*. The selected brokers must have execution arrangements that enable the Bank to comply with its BEP.

2.6 Primary market transactions

Basically, the best execution policy also applies to transactions such as new issues of bonds and equities or the subscription and redemption of funds. However, due to the characteristics of these markets, the Bank has limited discretion in defining the parameters of execution of these orders. Under the condition that the orders have been placed in a timely manner with the corresponding counterparty, best execution obligations are considered to be fulfilled automatically.

2.7 Specific client instructions

If the client gives the Bank specific instructions with respect to the execution of an order (such as instructing the Bank to direct orders to certain brokers), the Bank will execute the order in accordance with these specific instructions. The client acknowledges that these specific instructions may prevent the Bank from taking the steps defined in this policy to obtain the best possible result in the execution of those orders. The best execution obligation with respect to the elements covered by the client's instructions is deemed to be satisfied when the specific client instructions are followed.

3 Product-specific policies

3.1 Exchange-traded securities and derivatives

a The term "exchange-traded securities and derivatives" refers to the following *financial instruments*: equities, exchange-traded funds (ETFs), exchange-traded options and futures as well as bonds and structured products executed at an *execution venue* with an order book system.

b Execution strategy

The Bank determines the execution strategy of an order by taking into consideration the execution parameters defined by the client (such as limit, *VWAP* (volume-weighted average price) or stop loss), the volume of the transaction in relation to the market liquidity and the financial instrument. As highlighted in section 2.3, the Bank focuses on the execution factors price and cost. This means that the Bank may execute a client order over a certain period of time, or request a broker to execute it over a certain period of time, in order to minimise the impact of the client order on the market price.

By placing an order with the Bank, the client acknowledges that the order can be executed in various ways. The Bank has the discretion to execute the order using a strategy or in a manner which it believes is in the client's best interests, except when the client provides specific instructions. However, there is no guarantee that the execution strategy adopted by the Bank will achieve the best possible result.

c Limit orders relating to equities and equity-like instruments

If a client *limit order* with respect to equities admitted to trading on a regulated market or traded at a *trading venue* is not immediately executed under prevailing market conditions, the Bank is required, unless the client expressly instructs otherwise, to take measures to facilitate the earliest possible execution of that order by making the client *limit orders* public immediately in a manner which makes them easily accessible to other market participants. This duty is regarded as having been fulfilled when such a *limit order* is transmitted to a *trading venue* or an organised trading platform outside the European Union. In the case of especially large orders, the Bank reserves the right to decide at its own discretion whether the *limit order* should be made fully public.

d Exchange-traded funds (ETFs)

In contrary to the principle stated in section 2.4 for the selection of the best execution venue, the Bank may decide to choose the same execution venue for ETF sell orders as where the original buy transaction took place, in order to avoid problems with the settlement of the transaction.

3.2 Bonds and structured products

a The term "bonds and structured products" refers to the following *financial instruments*: bonds and structured products executed at a *trading venue* with a request for quote (*RFQ*) system or outside an *execution venue (OTC)*.

b Execution strategy

As with exchange-traded securities and derivatives, the Bank has the discretion to execute the order using a strategy or in a manner which it believes is in the client's best interests, except when the client provides specific instructions. For instance, the Bank may decide not to execute an order for a US bond during the morning hours in Europe as the US liquidity providers are not present in the market at this time.

Unless the product is offered exclusively by one issuer, the Bank will endeavour where possible to obtain competing quotes from several of its approved counterparties in order to execute the order at the best possible price. It should be noted that with less liquid instruments there might be only one liquidity provider and therefore only one available price to trade on. For orders in illiquid instruments, the execution factor "likelihood of execution" becomes more important and it may be necessary to accept the first price offered without the opportunity to obtain or request other prices.

c Limit orders for bonds

Taking into consideration the main trading times of the respective financial instrument, the Bank will submit an *RFQ* as soon as the price indications of its counterparties make an execution likely. Alternatively, *limit orders* might be submitted to a broker for monitoring and execution.

3.3 Tailor-made structured products

a Tailor-made structured products are tailored to individual client needs/investment strategies and are traded over the counter (*OTC*) directly with the issuer.

b Execution strategy

For LGT dual currency investments (LGT DCI) and LGT precious metal-linked investments, the Bank is the issuer of the product and therefore no competing quotes can be obtained. The Bank checks the fairness of the price proposed to the client by gathering market data used in the estimation of the price of such product and, when possible, by comparing the price with that of similar or comparable products.

For tailor-made structured products issued by third parties, the Bank will endeavour where possible to obtain competing quotes from several of its approved counterparties in order to offer the client a choice of different issuers and to check the fairness of the price proposed to the client. The client may instruct the Bank to execute the transaction with a specific issuer. In this case, the best execution obligation for tailor-made structured products is automatically considered to be fulfilled.

3.4 Foreign exchange/precious metal OTC derivatives

a The term "foreign exchange/precious metal OTC derivatives" refers to the following *financial instruments*: forwards, swaps, options, accumulators/decumulators, target accrual redemption forwards (TARF) and pivot TARFs on currencies and precious metals, as well as non-deliverable forwards (NDF) and non-deliverable options (NDO) on currencies.

b Execution strategy

LGT Bank Ltd. is a registered *systematic internaliser (SI)* for the asset classes in question and therefore acts in its own name and for its own account. This means that LGT Bank Ltd. is the *execution venue* for the transactions concerned. This also means that the prices it provides are LGT prices and that the Bank does not make order routing decisions on the client's behalf. The Bank checks the fairness of the price proposed to the client by gathering market data used in the estimation of the price of such product and, when possible, by comparing the price with that of similar or comparable products.

c Request for quote

The Bank quotes its clients a price on request. Such quotes are only firm for a short moment and apply exclusively for a marketable amount. The period of time and the marketable amount depend on market volatility and the market liquidity of the individual *financial instruments*. Depending on those factors, the Bank may need to adjust the price quoted or refuse the order. LGT applies this "last look" rule symmetrically. This means that the price is adjusted or the order refused regardless of whether the price movement outside the defined bandwidths is in LGT's favour or in the client's favour.

d Limit order

The Bank will make every reasonable effort to execute the order promptly once the limit is touched. However, there is no guarantee of execution at a given price, in particular in the event of an unusual situation or extreme price/rate movements.

e Pre-hedging

The Bank may enter into transactions, either before or at the same time as it executes a client order, to manage the Bank's risk pending execution of a client order (this is sometimes referred to as "pre-hedging"). Such pre-hedging activities may comprise trades in the same OTC derivatives, the underlying currency pair, or other correlated products or currencies, and are conducted in the Bank's own name and for its own account. Pre-hedging may incur gains or losses for the Bank. The Bank conducts all pre-hedging activities in a way that does not intentionally disadvantage clients and/or affect or disrupt the prevailing price mechanisms of the market.

3.5 Other OTC derivatives

a The term "other OTC derivatives" refers among other things to the following *financial instruments*: OTC options on bonds and equities, interest rate swaps, credit default swaps, total return swaps and accumulators/decumulators on equities.

b Execution strategy

For other OTC derivatives, LGT Bank Ltd. acts in a *riskless principal* capacity. If the Bank receives a client request to trade in other OTC derivatives, it will endeavour where possible to obtain competing quotes from several of its approved counterparties in order to trade at the best possible price. Alternatively, the Bank can check the fairness of the price proposed to the client by gathering market data used in the estimation of the price of such product and, when possible, by comparing the price with that of similar or comparable products.

4 Monitoring and review

The Bank has implemented an internal governance framework and control process through which it monitors the effectiveness of the best execution policy and assesses on a regular basis whether the *execution venues* it has selected provide for the best possible result. Depending on the type of *financial instruments*, the Bank monitors the best execution performance with tools and data provided by external service providers and/or with sample testing. For further details, please also consult the best execution reports on the Bank's website.

Where the Bank uses third-party brokers (including subsidiaries) to execute transactions, these are subject to thorough selection and approval procedures. The Bank also reviews the execution quality of these brokers at regular intervals.

The best execution policy and the execution arrangements are reviewed annually as well as whenever a material change arises that prevents the Bank from consistently achieving the best possible result when executing its client orders. The Bank shall inform its clients of any material changes in its arrangements or its BEP by publishing an update on its website www.lgt.com/en/publications/downloads/.

5 Concluding remarks

5.1 Disruption affecting the market or trading system

In the event of disturbances in the market or the Bank's own systems, e.g. due to outages or problems with access to technical systems, the Bank may deem it impossible or inappropriate to execute orders in any of the ways stated in this BEP. The Bank shall thereupon take all reasonable measures in order to otherwise achieve the best possible result for the client.

5.2 Cancellations

If the account is credited with an amount subject to actual receipt of payment, the Bank may subsequently reverse credit on the account, irrespective of the period of time that has passed since the entry was made to the account/custody account. The same also applies to custody account assets that are posted to the client's custody account subject to the securities actually being delivered as well as to account and custody account entries that are incorrect or made by mistake. The client acknowledges that the Bank may make such correcting entries without consulting them in advance.

The Bank is under no obligation to execute orders for which there is no coverage/credit limit or which concern balances and custody account assets that have been credited subject to payment/securities actually being received and where such a payment/securities delivery is still outstanding.

5.3 Unforeseen circumstances

Best execution is a process and not an outcome. This means that when the Bank is executing orders for its clients, it shall execute them in accordance with these principles. However, the Bank cannot guarantee that the best possible result will be obtained in all circumstances and in every event. The relative importance of the different execution factors may lead to different results for individual transactions.

6 Definitions

Financial instruments – as defined in Annex I, Section C of the EU Directive 2014/65/EU.

FX/PM spot transaction – an agreement between the Bank and the client to buy one currency/precious metal at the same time as selling another currency/precious metal at an agreed price for settlement on the spot date.

Primary market – the part of the capital market in which new securities are issued. The main focus is on the new issue of bonds, equities and structured products as well as the subscription and redemption of investment funds, hedge funds and private equity transactions.

Execution venue – a *regulated market (RM)*, a *multilateral trading facility (MTF)*, an *organised trading facility (OTF)*, a *systematic internaliser (SI)* or an organised trading platform outside the European Union.

Trading venue – an *RM*, *MTF* or *OTF*.

OTC – means the execution of *financial instruments* outside an *execution venue*.

Multilateral trading facility (MTF) – a multilateral system, operated by an investment firm or a market operator, 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 a contract in accordance with Title II of Directive 2014/65/EU.

Limit order – an order to buy or sell a specified volume of a certain financial instrument within a specified price limit or better.

Regulated market (RM) – a multilateral system operated 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 with respect to the *financial instruments* admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with Title III of Directive 2014/65/EU.

Organised trading facility (OTF) – a multilateral system which is not a regulated market or an *MTF* and in which multiple third-party buying and selling interests in bonds, structured finance products, emission allowances or derivatives are able to interact in the system in a way that results in a contract in accordance with Title II of Directive 2014/65/EU.

Systematic internaliser (SI) – an investment firm which, on an organised, frequent, systematic and substantial basis, deals on own account when executing client orders outside a regulated market, an *MTF* or an *OTF* without operating a multilateral system.

Smart order routing (SOR) – technologies that take into consideration the best possible market prices of different *execution venues* and systematic internalisers at the time of executing an order.

Request for quote (RFQ) system – a trading system where one or more quotes are provided in response to a request for a quote submitted by one or more members or participants. The quote may only be executed by the member or participant who made the request. The member or participant who made the request may conclude a transaction by accepting the quote or quotes provided to it upon request.

VWAP – the volume-weighted average price (*VWAP*) is a common trading benchmark that gives the average price at which a financial instrument has traded during a defined time period, based on both volume and price.

Riskless principal – at the same time as the client order, the Bank concludes a counter-transaction so that it is not exposed to a market risk at any time.