

POLICY FOR THE BEST EXECUTION OF ORDERS BY KAROLL CAPITAL MANAGEMENT EAD MANAGEMENT COMPANY

The present policy has been adopted on the grounds of Art. 133 - Art. 137 and Art. 139, para. 7 and para. 8 of Ordinance No. 44 on the requirements for the activity of the collective investment schemes, closed-type investment companies and management companies /Ordinance No. 44/. The Policy has been adopted at a meeting of the Board of Directors of the Management Company of 01.12.2017 and replaces the previously adopted policies and procedures with the same subject, which contradict to the present one. The Management Company reviews and amends, if necessary, the present policy annually and as required by the current legislation. The present policy shall apply to the collective investment schemes managed by the Management Company and to the unitholders of these collective investment schemes. The policy shall apply also to the clients of the Management Company as per contracts for management of individual portfolios.

GENERAL OBLIGATIONS OF THE MANAGEMENT COMPANY

Art. 1. (1) The Management Company shall treat fairly the unitholders of the collective investment schemes managed by it.

(2) The Management Company shall not give priority to the interest of any group of unitholders over the interests of other groups of unitholders.

(3) The Management Company shall not commit abuses in its activity, which can reasonably be expected to affect the stability and integrity of the market.

(4) The Management Company shall apply fair, correct and transparent price models and systems for valuation of the collective investment schemes managed by it, that comply with the current legislation, so as to meet the obligation to act to the best interest of the unitholders. The Company must be able to prove that the portfolios of the collective investment schemes managed by it have been correctly valued.

(5) The Management Company shall perform its activity so as to prevent the charging of unnecessary expenses for the collective investment scheme and for its unitholders.

(6) The Management Company shall: 1. Act loyally and fairly to the best interest of the collective investment schemes it manages and of the market integrity; 2. Act with the required skill, care and attention to the best interest of the collective investment scheme it manages and of the market integrity; 3. Hold and use effectively the resources and procedures needed for the proper implementation of their activity; 4. Avoid conflicts of interests, and if they cannot be avoided – guarantee that the collective investment schemes it manages are treated fairly; 5. Comply with all regulatory requirements in the course of its activity to the best interest of the investors and of the market integrity.

Art. 2. (1) The Management Company shall exercise due care in the selection of the investments and in their on-going monitoring, which shall always be to the best interest of the collective investment scheme and of its unitholders.

(2) The Management Company shall ensure the performance of its activity with the required knowledge and understanding of the assets, in which the investment schemes managed by the company invest.

(3) The Management Company shall take investment decisions on behalf of the collective investment schemes, which it manages, only in line with the objectives, the investment strategy and the risk limitations of these collective investment schemes.

BEST PERFORMANCE

Art. 3. (1) The Management Company shall act to the best interest of the collective investment scheme it manages when executing decisions for transactions on behalf of the respective scheme in course of managing its portfolio.

(2) The Management Company, while performing the obligation under para. 1, shall undertake all reasonable actions to achieve the best possible result for the collective investment scheme, while taking into account

- *the price,*
- *the costs,*
- *the term,*
- *the possibility for execution and settlement,*
- *the volume and type of the order, or*
- *any other circumstance related to the execution of the order.*

The following criteria shall be applied to determine the respective meaning of these factors:

1. The objectives, investment policy and specific risks for the collective investment scheme, as stated in the Prospectus, in the Fund Rules or in the Articles of Association of the investment company;
2. The characteristics of the order;
3. The characteristics of the financial instruments within the scope of the order;
4. The characteristics of the places of execution where the order may be addressed.

(3) The Management Company shall attain the best result for the collective investment scheme pursuant to para. 2.

(4) To determine the best result, the factors under para. 2 shall be evaluated comprehensively:

The price of the financial instrument –

The price usually depends on the mechanisms for demand and offering on the market, by the number of actors on the market, by the actions of the market-makers (if any) and on the organisation of the market where the respective financial instruments are traded.

Transaction costs related to the execution of the order (commission fee and other fees) – The Management Company shall seek for the best conditions with regard to the execution costs and the quality of the provided services.

The promptness or speed of execution – The speed of execution on a given regulated market or multilateral trading system shall be defined to a large extent by the organisation of trading on the respective market.

The possibility for full execution and settlement – The Management Company shall decide on the possibility to execute a submitted order on a case-by-case basis.

The volume and type of the order – the volume or the number of financial instruments within the scope of the order affect directly the price of the financial instruments and the transaction costs.

Type and nature of the order – purchase, sale, etc; limited, market, etc.

Any other factors relevant to the execution of the order and achieving the best result.

(5) The criteria under para. 2 used to determine the significance of the factors under para. 2 shall be:

1. The objectives, investment policy and specific risks for the collective investment scheme – the specific objectives and investment policy of the CIS shall be stated in the Prospectus and in the Fund Rules in accordance with the Articles of Association.

2. The characteristics of the order – the Management Company shall consider the characteristics of the order as a criterion to determine the respective importance of the factors as per Art. 3, para. 2.

3. The characteristics of the financial instruments within the scope of the order:

- with regard to financial instruments traded on regulated markets where liquidity and a market price is available, the Management Company shall use the price of the respective instrument and the costs related to order execution as the most important factor for execution.

- with regard to products traded over the counter, for which no market price is available, the Management Company shall use the possibility for partial or full execution and settlement of the order as the most important factor for execution.

The financial instruments can be:

Shares - equity securities, representing a part of the capital of the issuing business entity, which give a voting right, a liquidating dividend right, a right of dividend /if distributed/, a right of participation in the General Assembly of a company shareholders and in its management; a right to proportionate part of the new shares in case of increase of capital, etc.

Government securities - debt securities issued or guaranteed by the Bulgarian state, which provide yield in the form of interest that an investor receives on a fixed date or during a specified period of time, as well as the face value of the debt security or the capital gains/loss in case the investor sells the security before its maturity.

Options - financial instruments, which give the right to purchase or sale of a certain number of securities or other financial instruments at an initially fixed price until the expiry of a given term or on a defined date.

Futures are a type of derivative financial instruments giving the right but also the obligation to buy or sell a given number of securities or other financial instruments at a price defined in advance, on a certain date.

Contracts for difference, as a type of financial instruments, give the right to receive the difference between the market value of a certain number of securities or other financial instruments and their price determined in advance in the contract.

Municipal securities - debt securities issued by municipalities, which provide yield in the form of interest that an investor receives on a fixed date or during a specified period of time, as well as the face value of the debt security or the capital gains/loss in case the investor sells the security before its maturity.

Government securities - debt securities issued or guaranteed by the Bulgarian state, which provide yield in the form of interest that an investor receives on a fixed date or during a specified period of time, as well as the face value of the debt security or the capital gains/loss in case the investor sells the security before its maturity.

Mortgage bonds - debt securities, secured by real estate, which provide yield in the form of interest that an investor receives on a fixed date or during a specified period of time, as well as the face value of the debt security, which is paid to the issuer on the maturity date or the capital gains/loss in case the investor sells the security.

Units of collective investment schemes - they provide dividend income and income in the form of capital gains/loss – the difference between the purchase and sale price of the purchased shares or units.

Other financial instruments as mentioned in Art. 3 of the Markets in Financial Instruments Act

4. The characteristics of the places of execution where the order may be addressed – under normal market conditions, the characteristics of the places of execution will not have a significant impact on the order execution.

In the cases when a certain financial instrument has been admitted for trading only at a single place of execution, the Management Company shall assume that it corresponds to the best conditions.

If the financial instruments are traded on more than one regulated market or on a multilateral trading system, the order shall be executed at the place where the best result can be achieved for the collective investment scheme or the client.

(7) The Management Company shall:

1. Provide unitholders with suitable information regarding this policy, as well as any essential changes in it;
2. Monitor regularly the effectiveness of its organisational measures and the policy in relation to order execution so as to identify and, if necessary, eliminate any deficiencies.
3. Review the policy annually and also if there has been a material change that affects the Management Company's capability to continue obtaining the best possible result for the managed collective investment schemes;
4. Be capable of proving that it executes the orders on behalf of the collective investment schemes it manages in compliance with its policy for order execution.

RULES OF ASSIGNMENT

Art. 4. (1) The Management Company shall act to the best interest of the collective investment schemes managed by it when assigning the order execution to third parties on behalf of these schemes while managing their portfolios.

(2) The Management Company, while performing the obligation under para. 1, shall undertake all reasonable actions to achieve the best possible result for the respective collective investment scheme, while taking into account:

- *the price,*
- *the costs,*
- *the term,*
- *the possibility for execution and settlement,*
- *the volume and type of the order, or*
- *any other circumstance related to the execution of the order.*

The criteria under Art. 3, para. 2 shall be applied to determine the respective meaning of these factors.

(3) The Management Company can assign the order execution to the following entities, where if the current legislation allows, the Management Company can assign it to other entities, as well, under terms and procedure provided for by the legislation:

- For shares, bonds, compensation instrument and other financial instruments traded on a Bulgarian regulated market or on a multilateral trading system, the Management Company shall assign order execution only to investment intermediaries licensed by the Financial Supervision Commission.

- For shares, bonds and other financial instruments, which are not traded on a Bulgarian regulated market or on a multilateral trading system, the Management Company can assign order execution only to investment intermediaries holding a licence from the respective national supervisory authority, with which it has concluded a contract.

(4) The Management Company shall conclude a contract for order execution only if by means of this contract it is not in breach of its obligations under the present article. The Management Company shall provide unitholders with suitable information regarding the adopted policy, as well as any essential changes in it.

EXECUTION OF TRANSACTIONS WITH THE ASSETS OF THE COLLECTIVE INVESTMENT SCHEME AND REQUIREMENTS FOR THEIR REGISTRATION AND KEEPING THE INFORMATION ABOUT THEM

Art. 5. (1) The Management Company shall ensure the due, proper and quick execution of the transactions with the assets in the collective investment scheme portfolios it manages.

(2) The Management Company shall ensure that the orders executed on behalf of a collective investment scheme are duly and correctly registered and distributed.

(3) The Management Company shall ensure that comparable orders of the collective investment schemes are executed consistently unless this is hard to achieve due to the characteristics of the order or the prevailing market conditions or if the interests of the respective scheme require otherwise.

(4) The financial instruments or cash received at settlement of executed orders shall be transferred immediately and accurately to the account of the respective collective investment scheme.

(5) The Management Company shall not misuse information related to pending (not executed) orders of a collective investment scheme and shall undertake all reasonable steps to prevent misuse of such information by the persons contracted by it.

COMBINING AND SPLITTING ORDERS

Art. 6. (1) The Management Company can combine or split orders if the assets are kept with the same depositary institution, while observing the provisions of the current clause.

(2) Orders can be combined only if they comprise the same type of financial instruments and if they do not differ in their type and nature. It is allowed to combine orders, which have different "quantitative execution" characteristics, i.e. orders, which will be "partially" executed, with those that will be executed "in full".

(3) The Management Company shall not execute an order of a given collective investment scheme by combining it with an order of another scheme it manages, or of another client, or with an order for its own account, unless the following conditions have been met:

1. It must be very unlikely that combining the orders may harm the interests of any collective investment scheme or clients whose orders will be combined;

2. The Management Company must have adopted and must apply effectively rules for combining and splitting orders that contain concrete rules for fair distribution of the combined orders, including about how the volume and the price of the orders determine the distribution and processing in case of partial execution.

(4) If the Management Company combines an order of a given collective investment scheme with one or more orders of another scheme or client and the combined order is partially executed, the Management Company shall split the respective transactions proportionally.

(5) If the Management Company combines orders of a given collective investment scheme or other clients with transactions that it carries out at its own expense, the company shall split the respective transactions in a way that does not harm the collective investment scheme or the other clients.

(6) If the Management Company combines an order of a given collective investment scheme or another client with a transaction that it carries out at its own expense and the combined transaction is partially executed, the Management Company shall split the respective transactions of the collective investment scheme or of the other client with priority before splitting the transactions carried out at its own expense.

(7) If the Management Company is able to provide sound reasons to the collective investment scheme or to other clients that without combining the orders the company would not be able to execute them at such favourable conditions or would not be able to execute them at all, it can distribute the transaction proportionately at its own expense.

(8) The Management Company shall apply a procedure for avoiding double distribution of transactions carried out at own expense, executed jointly with orders at the expense of the collective investment scheme or the clients, if this causes harm to the client.

(9) In case an order for the account of a collective investment scheme has been executed at a price, which is more favourable than the initially defined, the whole benefit will belong to the collective investment scheme.

RECORDS FOR CONCLUDED TRANSACTIONS

Art. 7. (1) The Management Company shall ensure that for each transaction related to the portfolio of a collective investment scheme the information needed to reproduce the details of the order and of the executed transaction shall be recorded immediately.

(2) The record as per para. 1 shall contain: 1. the name or another designation of the collective investment scheme and of the person acting on its behalf; 2. detailed information required to identify the respective instrument; 3. size; 4. type of the order or the transaction; 5. price; 6. for orders – the date and exact time of submitting the order and the name or another designation of the person to whom the order was submitted, or for transactions – the date and the exact time of the decision for trading and execution of the transaction; 7. the name of the person submitting the order or executing the transaction; 8. the reason for cancellation of the order, if applicable; 9. for concluded transactions – counterparty and identification of the place of execution.

(3) The storage of the information and records as per para. 1 shall be done pursuant to Art. 68 of Ordinance 44.

FEES, COMMISSIONS AND OTHER NON-CASH BENEFITS

Art. 8. (1) The Management Company shall act fairly and professionally to the best interest of the collective investment scheme and in relation to the management and administration of the investments of the respective scheme it shall not pay or receive fee or commission, nor provide or receive non-cash benefits unless these are:

1. Fees, commissions or non-cash benefits paid by or to a collective investment scheme or to a person on behalf of the scheme, or received from it;

2. Fees, commissions or non-cash benefits paid by or to a third party, or received by them, or a person acting on behalf of a third party, if the following conditions are met:

a) The existence, nature and size of the fee, commission or benefit, or when the size cannot be established – the method of calculating the amount, must be disclosed to the collective investment scheme in an exhaustive, accurate and comprehensive manner prior to providing the respective service;

b) The payment of the fee or commission, or the provision of non-cash benefits must be aimed at raising the quality of the respective service and must not be an obstacle for the Management Company to perform its obligation to act to the best interest of the collective investment scheme;

3. Specific fees, which are allowed or necessary for the provision of the respective service, including custody fees, settlement and exchange fees, regulatory fees, taxes and legal fees, and fees that, according to their nature, cannot lead to conflicts of interests with the obligations of the Management Company to act fairly, honestly and professionally to the best interest of the collective investment scheme.

(2) For the purposes of para. 1, item 2, letter "b", the Management Company can disclose in a summarised way the main provisions of the agreements concerning the fees, commissions or non-cash benefits. At the request of a unitholder, the Management Company shall disclose additional details regarding the agreements.

REQUIREMENTS TO THE MANAGEMENT COMPANY WHEN PERFORMING INDIVIDUAL PORTFOLIO MANAGEMENT

Art. 9. (1) When managing an individual portfolio, the Management Company shall perform its obligation to act honestly, fairly and professionally to the best interest of the client and inform them about the risks of the transactions with financial instruments.

(2) The Management Company shall provide the services as per Art. 86, para. 2 of the LACISOUCI at the expense of a client based on a written contract with the client. The provisions of Chapter II of Ordinance No. 38 shall apply to the procedure and methods of concluding the contracts. The contracts as per the first sentence can be concluded under general terms and conditions.

(3) When providing services other than those as per Art. 86, para. 2, item 2 of the LACISOUCI to a new non-professional client, the Management Company shall provide them, in hard copy or on another durable medium, information about the main rights and obligations of the client and of the Management Company, including by providing the General Terms and Conditions applied by the company.

(4) The contents of the General Terms and Conditions shall be defined depending on the services and activities offered by the Management Company and they may contain the information that the Management Company is supposed to provide to its customers pursuant to Ordinance 44.

(5) The Management Company shall include in its General Terms and Conditions, or in the contract with the client if it does not apply General Terms and Conditions, information about the methods of reasonable and fair settlement of disputes.

(6) When providing information to clients and potential clients, including information in marketing announcement, the Management Company shall meet the requirements of the Markets in Financial Instruments Act and of Ordinance No. 38.

(7) When managing an individual client portfolio, the Management Company shall perform its obligation to act to the best interest of the client pursuant to Art. 3, para. 1 and para. 3 of Ordinance No. 38.

(8) To perform the obligations under para. 7, the Management Company shall use all reasonable efforts to achieve the best result for its clients while considering the following factors: best price for the client, amount of expenses, probability for execution and all other circumstances related to order execution.

(9) The relative importance of each factor under para. 8 shall be determined against the following criteria:

1. Client characteristics, including whether they have been defined as a non-professional or professional client;

2. Characteristics of the order submitted for the account of the client;

3. The characteristics of the financial instruments within the scope of the order;

4. Characteristics of the places of execution where the order can be addressed for execution, and for non-professional clients – also the total value of the transaction including the price of the financial instrument and the costs related to the execution. The execution costs shall include all expenses directly related to executing the order, including fees for the place of execution, fees for clearing and settlement, as well as other fees and remuneration payable to third parties associated with the order execution.

(10) When managing an individual client portfolio, the Management Company shall observe the rules for combining and splitting orders pursuant to Art. 37 of Ordinance No. 38 and of para. 11 below.

(11) The Management Company shall combine orders submitted for the account of clients while meeting the following requirements:

1. Combining the orders must not harm the interests of any client whose orders are being combined;

2. The combined client orders must be split based on the following criteria:

a) Date and time of submission;

b) Single Price;

c) Total value of the order;

d) Defined parameters for quantitative execution;

e) Other concrete instructions by the client /if any/.

(12) The Management Company can combine only orders by clients if they comprise the same type of financial instruments and if they do not differ in their type and nature.

(13) The Management Company shall not combine orders for purchase or sale of financial instruments by clients, which have been submitted on different working days and orders with different validity terms.

(14) The Management Company shall not combine orders for purchase or sale of financial instruments by clients, which are differentiated by their place of execution. It is allowed to combine orders, which have different "quantitative execution" characteristics, i.e. orders, which will be "partially" executed, with those that will be executed "in full".

Art. 10. (1) The Management Company shall provide the following information to its clients:

1. The respective information about the Management Company and the services it offers as per Art. 8 and 9 of Ordinance No. 38;

2. The financial instruments falling within the scope of the additional services provided by the Management Company and the offered investment strategies and risks, related to these instruments and strategies, pursuant to Art. 10 and Art. 11 of Ordinance No. 38;

3. The types of costs for the client and their size, where for non-professional clients and potential non-professional clients Art. 18 of Ordinance No. 38 shall apply;

4. The method of keeping the cash and/or the financial instruments of the clients when offering the service of individual portfolio management, pursuant to Art. 32 of Ordinance No. 38;

Art. 11. The Management Company shall request from the client, respectively – the potential client, information about their financial capacity, investment objectives, knowledge, experience and readiness to take risks and in offering the service it shall be guided by the obtained information while observing the requirements of Art. 19 and Art. 21 of Ordinance No. 38.

Art. 12. With regard to the payment and receipt of remuneration, fees, non-cash benefits and fees in relation to the additional services of individual portfolio management and provision of investment advice, the Management Company shall observe the requirements of Art. 14 of Ordinance No. 38.

Art. 13. (1) When providing additional services as per Art. 86, para. 2 of LACISOUCI, the Management Company may assign the performance of important operational functions to a third party under the terms and as per the procedure of Art. 24, para. 1, item 9 and Art. 32, para. 6 of the Markets in Financial Instruments Act and Chapter Five of Ordinance No. 38. The assignment shall be done by means of a written contract between the Management Company and the third party, which shall state exhaustively the rights and obligations of the parties.

(2) The assignment of important operational functions shall be done in a way that will not lead to releasing the Management Company from its obligations as per the legal acts. The assignment as per para. 1 shall not lead to:

1. Assignment of the responsibilities of the members of the managing body of the Management Company or other persons who manage its activity;
2. Change in the legal relations between the Management Company and its clients or of its obligations toward them;
3. Breach of the requirements of the legal acts;
4. Cancellation or change of any other condition, based on which the licence of the Management Company has been issued.

(3) The assignment shall be done while observing the following requirements:

1. The person to whom the performance is assigned shall have the necessary capabilities, resources and the permissions required by the law for the due and professional performance of the assigned functions;
2. The person under item 1 shall perform the assigned functions in an effective way;
3. The person under item 1 shall exercise due control on the performance of the functions assigned to them and manage adequately the related risk;
4. The Management Company shall undertake the necessary actions if it is evident that the person under item 1 cannot perform the assigned functions effectively and in compliance with the legal and regulatory requirements.
5. The Management Company shall maintain the required organisation, resources and capacities for exercising effective control on the functions assigned to the third party and for managing the risks related to that assignment, it shall control these functions and manage these risks;
6. The person under item 1 shall inform the Management Company about any change that may have significant impact on their capacity to perform the assigned functions effectively and in compliance with the legal and regulatory requirements;
7. The Management Company can terminate, if necessary, the assignment contract without this harming the continuity or the quality of delivering services to clients;
8. The person under item 1 shall provide assistance to the commission and the deputy chairperson in relation to the functions assigned.
9. The person under item 1 shall ensure the confidentiality of the information they have obtained related to the Management Company and its clients;
10. The Management Company and the person under item 1 shall prepare, apply and maintain a recovery plan in case of failures and for regular inspection of the means for storage of information, when this is necessary due to the nature of the assigned function, service or activity.

(4) The Management Company shall assign the provision of services to non-professional clients to a person established in a third country only if the additional requirements as per Ordinance No. 38 on the requirements to the activity of the investment intermediaries have been met.

TRANSITIVE AND FINAL PROVISIONS

§1. **KAROLL CAPITAL MANAGEMENT EAD** has made the present policy available to all current and potential clients at the company head office and at the other offices in the country, as well as on the Company web site.

§2. In case of contradictions between the present policy and a legal act, which governs the activity of the Management Company, the provisions of the respective act shall apply and immediate amendment of the policy shall not be needed, except for cases where the respective legal act explicitly provides for this.

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/D. Ganev – Managing Director/

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/B. Kotseva – Member of the Board of Directors/