

Client Classification Policy
Alfa Asset Management (Europe) S.A.

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1. Outlines of Mifid II:

1.1 Aim

The first Markets in Financial Instruments Directive (“MiFID I”) became effective on 1 November 2007. It introduced a number of items including the MiFID passport, client categorization requirements, client order handling requirements, pre-and post-trade transparency requirements and requirements relating to investment firms ensuring that clients receive best execution.

MiFID II has come into effect on 2 January 2018 and is widely regarded as one of the most important regulatory initiatives undertaken by the European Union (“EU”). MiFID II was published together with the Markets in Financial Instruments Regulation (“MiFIR”) in 2014.

In general, MiFID II relates to the framework of trading venues/structures in which financial instruments are traded. MiFIR is concerned with regulating the operation of these trading venues and the processes, systems and governance measures adopted by market participants.

The main objectives of MiFID II include the pursuit of harmonized regulation across EU financial markets, increased competition between EU financial markets, ensuring appropriate levels of investor protection, and strengthening of supervisory powers.

1.2 Scope

MiFID II governs the activities of investment firms, regulated markets and authorized credit institutions which provide one or several investment services and/or conduct one or several investment activities.

The main investment services and activities concerned are the following:

- Reception and transmission of orders relating to one or several financial instruments;
- Portfolio management;
- Investment advisory

MiFID II applies only to transactions on the following financial instruments:

- Transferable securities;
- Money market instruments;
- Collective investment scheme shares;
- Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivative instruments, financial indices or financial measures which may be settled physically or in cash;
- Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market and/or a multilateral trading facility (MTF);
- Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled, and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls;

- Derivative instruments used for transferring credit risk;
- Financial contracts for differences;
- Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

2. Client classification

MiFID II defines the three following client categories:

- Eligible counterparties;
- Professional clients, which is divided as follows:
 - a) Opt-up professionals: clients treated as professionals upon their own request,
 - b) Per-se professionals: clients automatically considered professionals;
- Retail clients (non-professional)

The purpose of the client categorization is to establish the different levels of client protection depending on their knowledge of financial instruments and services and their risk tolerance. The highest level of protection is afforded to clients categorized as retail. This includes services suited to the client's risk profile (established beforehand) and more extensive information. At the other end of the scale, eligible counterparties receive the lowest level of protection; for example, they are the only category for which the best-execution obligation does not apply.

2.1. Eligible counterparties

The following are considered eligible counterparties:

- Investment firms,
- Credit institutions,
- Insurance companies,
- Open-ended investment funds (UCITS) and their management companies,
- Pension funds and their management companies,
- Other financial institutions authorized or regulated under EU law or the law of a Member State,

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From 2 January 2018, municipalities and local public authorities are no longer permitted to be eligible counterparties or per se professional clients, as well as local Government Pension Schemes may only be able to be classified as 'retail', clients. Whereas local Government Pension Schemes still

can request treatment as professional clients provided they meet the qualitative and quantitative tests for large undertakings.

Eligible counterparties are subject to less regulatory protection due to their knowledge, their capabilities and their financial capacities. However, they are not entirely exempt, in particular they are bound by the organizational rules laid out in the MiFID II regulation.

With regards to investment services provided by Alfa Asset Management (Europe) S.A., as at the date of the present policy (in particular portfolio management and investment advisory), the eligible counterparties listed above are considered professional clients for the purposes of the present client classification policy.

2.2. Professional clients

2.2.1. Definition

A professional client is a client who possesses the experience, knowledge and expertise to take its own investment decisions and properly assess the risks that it incurs. As such, it is provided a lower degree of protection than retail clients.

Being deemed skilled on and knowledgeable about the markets, the only protection it gets is:

- An assessment of its investment objectives. Such assessment will establish whether a service is appropriate for a given client before it is provided;
- An Best-execution policy that defines the client's order-execution criteria. Such policy is updated annually and available on our Website.

There are two categories of professional client:

- Per se professional clients
- Opt-up professional clients

2.2.2. Per-se professional clients

1. Entities which are required to be authorized or regulated to operate in the financial markets, i.e.:

- Credit institutions,
- Investment firms,
- Other authorized or regulated financial institutions,
- Insurance companies,
- Collective investment schemes and their management companies,
- Commodity and commodity derivatives dealers,

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2. Large undertakings meeting two of the following size requirements on a company basis:
 - Balance sheet total: EUR 20 million,
 - Net turnover: EUR 40 million,
 - Own funds: EUR 2 million
3. National and regional governments, public bodies that manage public debt, central banks, international and supranational institutions such as the World Bank, the IMF, the ECB, the EIB and other similar international organizations.
4. Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitization of assets or other financing transactions.

2.2.3. Opt-up professional clients

By requesting opt-up professional status, retail clients may waive part of the protection afforded by best-execution rules. Professional clients that have made an opt-up request may only be treated as opt-up professionals by Alfa Asset Management (Europe) S.A. after the assessment and notification procedure described below has been completed.

▪ *Client assessment*

In order for applicants to be granted a lower level of protection than that afforded by best-execution regulations, an assessment of their skills, experience and knowledge must provide reasonable assurance that they are capable of taking the required investment decisions and understanding the risks they run, in relation to the sort of transactions they plan to carry out and the services they expect to use.

Alfa Asset Management (Europe) S.A. is authorized to treat any such clients as an opt-up professional, provided they satisfy at least two of the following criteria:

- The size of the client's financial instrument portfolio exceeds EUR 500 000,
- The client has carried out transactions, in significant size, on financial instruments at an average frequency of 10 per quarter over the previous four quarters,
- The client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of investment in financial instruments.

▪ *Client notification*

Once all reasonable steps have been taken to ensure the retail client who wishes to be granted opt-up professional status fulfils the criteria described above, Alfa Asset Management (Europe) S.A. may start the procedure for classifying the client as professional, as follows:

- the client must state in writing that they wish to be treated as a professional client,

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- Alfa Asset Management (Europe) S.A. writes back, giving them a clear written warning of the protections and investor compensation rights they may lose,
- the client must state in writing, that they are aware of the consequences of losing such protections.

2.3. Retail clients

Retail clients are those who fall neither in the eligible counterparty nor in the professional client's categories, and include those who have applied for "opt-down" status, i.e. professional clients who have requested in writing to be treated as non-professional (retail) clients.

2.4. Main differences in treatment between retail and professional clients

By virtue of its service offering, in principle Alfa Asset Management (Europe) S.A. clients are all retail. Clients wishing to apply for opt-up professional status must be warned that Alfa ASSET Management (Europe) S.A. duties of diligence are less when dealing with a professional client, in particular with regard to the following:

- The duty of information: under MiFID II, supplementary information about the company's structure, services and financial products on offer is mandatory for retail clients;
- When Alfa Asset Management is providing professional clients with investment services (in particular investment advisory or portfolio management), it is authorized to assume that the clients possess the requisite level of experience and knowledge to understand the risks inherent in a given transaction or the management of their portfolio;
- When Alfa Asset Management (Europe) S.A. is providing professional clients with investment advice, it is authorized to assume that the client has the financial means to bear the risk of such investment;
- Alfa Asset Management (Europe) S.A. is only obliged to inform retail clients of any serious difficulties it may encounter that could affect order-execution.