



# Best Execution and Order Handling

Getting the best results for client orders



## WHY

As a global asset manager that executes orders on behalf of clients, UBS Asset Management (AM) has a fiduciary obligation to take all sufficient steps to obtain the best possible trade execution results for our clients.

A failure to abide by this policy could result in regulatory violations resulting in fines, sanctions and other penalties. Further, any failure to satisfy this policy could result in damages to UBS AM's reputation, as a result of suboptimal and/or unfair outcomes for clients.



## WHO

This policy applies to all UBS AM Business Units that provide trade execution services on behalf of our clients.



## WHAT

to know about **HOW** to comply

### 1. Best Execution and Order Handling principles

The first principle of best execution and order handling is to ensure that all clients, regardless of size, fees, or product are treated in a fair and equitable manner. This applies to the sequence by which orders are actioned, to how orders can be aggregated, and aggregated market transactions allocated. The second principle of best execution lies in the Portfolio Manager's / Trader's to always make a sufficient effort to ensure the best possible outcome for the client taking into consideration the established execution factors (listed in the Appendix).

### 2. Monitoring

Monitoring and controls are in place to identify and (where appropriate) correct any deficiencies in the traders' or executing portfolio managers' processes and procedures for executing orders. Part of this monitoring is a quarterly Best Execution Forum where we evidence our compliance with this policy.

### 3. Demonstrate compliance and governance

Each trading unit is responsible for managing a set protocol for ensuring best execution and fair order handling, as well as establishing the evidence and testing of the outcomes. The Best Execution Forums sign off on the protocols and review the outcomes of the best execution and order handling testing. Any deviations are escalated to the appropriate UBS AM committees.

### 4. Conflicts of Interest

To ensure Best Execution and Order Handling principles are followed, all relevant UBS AM staff that are executing trade are responsible for taking sufficient steps to identify conflicts of interests between the firm and its clients with respect to Best Execution. This is to be in accordance with the Group Policy on Conflicts of Interest to make sure UBS AM take all sufficient steps to obtain the best possible results for clients.

### 5. Client information, notification and consent

UBS AM must provide appropriate information to its clients on its Best Execution and Order Handling Policy in accordance with local laws and regulation. Where applicable, UBS AM should notify clients of any material changes to order execution arrangements or execution policy.



#### Need help?

Contact: Lynn Challenger (Head of Global Trading and Order Generation)



#### References

This page is to be read in conjunction with the details set out in the Appendix, which is an integral part of the policy

# Appendix

## Best Execution and Order Handling Policy



### Why we have this appendix

This appendix provides additional detail to the key topics listed on the first page of this policy .



### Applicability

This Policy applies to all UBS AM Business Units that provide execution services in products where a corresponding regulatory obligation requires such Business Units to seek to obtain Best Execution and Fair Order Handling for their customers.

Separately, to the extent that Business Units within AM elect to carry out Best Execution and Order Handling governance on a global level based on the manner in which the underlying product(s) are traded, this Policy will apply to all in-scope jurisdictions and products covered by such governance.

Specifically, this policy applies to:

- All orders in financial instruments / products placed, transmitted or executed by AM globally on behalf of all portfolios, except "Specific Client instructions" as per Section 1.7;
- All client accounts managed by AM. A reference to "client" here includes pooled fund and separate account mandates of third-party clients as well as to those of AM and its affiliates. Such accounts will be referred to herein as "client" or "portfolio";
- All AM staff who execute orders on financial instruments / products for client accounts such as Portfolio Managers or any employees assigned to AM execution desks (collectively called " Execution Traders").

This policy does not apply to Global Real Assets (GRA) where they trade privately held real assets and funds which have separate valuation and pricing processes or which trade through a relevant transfer agent in the primary market. Where GRA trade publicly listed securities (eg, Real Estate Investment Trusts (REITs)) or FX where the central trading unit is responsible for Best Execution they therefore are deemed in scope.

Direct investments not negotiable on the capital markets are out of scope of this policy, as these are not classified as a financial instrument. Direct Investments are governed by separate governance arrangements. In addition, there is no Best Execution obligation for Fund Unit transactions which are also out of scope of this policy.

Local Procedure:

This policy is intended to provide high level global principles for AM's best execution and order handling obligations procedures referenced herein. AM recognizes that there may be regional/local differences due to a variety of factors, including different laws and regulations. Local offices and trading desks are responsible for adopting any procedures and controls as are necessary to comply with this policy, regional/local laws and regulations in consultation with Legal and Compliance and Operational Risk Control (CORC).

Breaches of this policy may be dealt with in line with the Employee Incidents Policy and could result in disciplinary action, including dismissal, in serious cases.



## Additional policy content

### 1. Best Execution Principles «

UBS AM has a fiduciary obligation to take all sufficient steps, as applicable, to seek to obtain the best possible trade execution result for its clients (known as best execution), taking into account price, costs, speed, likelihood of execution and settlement, size, nature and / or any other relevant order execution considerations described in this section. AM has a further obligation that it provides a fair and equitable allocation of transactions when managing like orders for multiple clients/accounts at the same time.

In carrying out the Best Execution obligation, execution traders must use their professional judgment and experience to determine the relative importance of the Execution Factors in light of market information available, and to take into account the Key Requirements detailed in this section.

#### 1.1. Best Execution Criteria

When executing orders on behalf of clients, UBS will take sufficient steps to obtain best possible results taking into account, to the extent it deems them relevant, the following criteria ("Execution Criteria") to determine the applicable execution factors and their relative importance.

These Execution Criteria include:

- The characteristics of the portfolio, including portfolio investment guidelines / restrictions and regulations that may affect how orders are placed for the client;
- The characteristics of the order;
- The characteristics of the general market liquidity at the time of execution;
- The characteristics of the financial instruments that are the subject of that order; and
- The characteristics of the counterparty selected to execute the order

#### 1.2. Best Execution Factors

The Execution Factors that UBS should consider where relevant when executing an order on behalf of a Client include the following, but not limited to:

- Price of execution and depth of quote;
- Costs associated with execution (e.g. expenses incurred by the client including execution, clearing and settlement fees and any other fees paid to a counterparty or third party involved in the execution of the order);
- Market Impact – i.e. size and nature of the order
- Speed of execution;
- Size;
- Nature of the order;
- The likelihood of execution;
- The likelihood and complexity considerations of settlement;
- Liquidity profile;
- Any other consideration relevant to the execution of an order

#### 1.3. Execution venues selection criteria

When selecting an execution venue the following criteria should be considered, but without limitation:

- Operational risk factors;
- Efficiency factors e.g. offers Straight Through Processing;
- Regulatory directives
- Cost factors;
- Information leakage;
- Clearing capabilities; and
- Product coverage

## 1.4. Counterparty Selection Criteria

When selecting a counterparty the following criteria should be considered, but not limited to:

- Counterparty's ability to execute and settle the trade in a prompt, orderly and satisfactory manner;
- Counterparty's willingness to commit capital;
- Counterparty's confidentiality;
- Counterparty's financial status and credit worthiness, e.g. responsibility and solvency as required by our internal credit risk framework;
- Counterparty's execution capabilities and any related risks when trading a block of securities (e.g. anonymity);
- Counterparty's regulatory status;
- Counterparty's reputation;
- Counterparty's broad market coverage and knowledge;
- Counterparty's consistent quality of service; and
- Counterparty's treatment of AM as a professional client.

## 1.5. Execution venues and counterparties

The following types of venues or counterparties that AM approves for use are:

- Multilateral Trading Facilities;
- Organized Trading Facilities;
- Swap Execution Facilities;
- Regulated Markets
- Brokers (including Systematic Internalizers and non-Systematic Internalizers).
- Other exchanges or venues not listed above

AM regularly assess execution venues and counterparties to identify those that will enable AM, on a consistent basis, to seek to obtain the best possible result when executing client orders.

The addition or removal of a new venue or counterparty is overseen by the various AM Best Execution Forums within AM where relevant control functions approve the onboarding or removal of the counterparty or venue. This list is subject to review and may change as market structure evolves. Execution quality is regularly assessed using transaction cost analysis and investment team feedback, with performance reviewed in the Best Execution Forum and deficiencies, corrected where necessary.

AM must manage its conflicts of interest in such a way that does not discriminate unfairly between execution venues in accordance with the Conflicts of Interest Policy. <https://bw.policies.ubs.com/policies/1/12/1/24/1/1-P-001296.html>

## 1.6. Multiple quotes

Where pre-trade price transparency is not available (e.g. Over The Counter trading), an executing trader is expected to obtain multiple quotes in order to establish the fair market value from which best execution can be confirmed, AM execution traders will seek multiple quotes for orders directly from market participants either through a venue, direct stream or phone/Instant Message. Where multiple quotes are not available, the execution trader may use other valuation methodologies to establish the market level for the asset. The appropriate methodology depends on the asset and includes but is not limited to relative value assessment (e.g. spread to governments, spread to swaps, market movements since last trade, trace data or broker dealer runs, etc.).

In certain circumstances, multiple quotes may prevent a executing trader from achieving best execution for a specific transaction. The market price of a financial instrument may be impacted by a broad knowledge of the characteristics of an order (security, size, direction, market volatility, etc). When considering alternative execution strategies, executing traders must always apply the full principles of best execution. All costs and risks must be considered including the renegotiating of a contract with the counterparty, or through the execution of a close-out and re-open trade.

To ensure the fairness of the price proposed by the counterparty, execution traders check, where available, price against multiple quotes, market levels and valuation methodologies which are subject to best execution monitoring and Best Execution Forum oversight, and take into consideration break fees, taxation and other second order factors

Examples of order types and scenarios in which multiple quotes may not be available include but are not limited to:

- Broker inventory / order size factors, e.g. only certain brokers can support odd lots <sup>1</sup>, order size (both large and small) or netting/blocking which may result in only one counterparty being able to quote;
- Distressed or illiquid financial instruments / products;
- Market disruptive events/Fast markets leading to distressed or illiquid instruments
- Reduced counterparty list due to client restrictions or limited counterparty approvals, or directed execution (e.g. to custodian);
- Stop loss orders with pre-determined levels

## 1.7. Directed Broker Instructions

Where a client provides specific directed broker instructions, the order must be executed in accordance with those instructions, subject to compliance with local regulation. This may restrict an execution trader from taking steps designed and implemented in this policy to obtain the best possible result for the execution of those orders in respect of the elements covered by those instructions.

Where the client's instruction relates to only part of the order, AM will continue to apply its order execution policy to those aspects of the order not covered by the specific instructions.

The execution of orders for clients or programs that have designated the use of particular broker-dealers may be delayed until after the execution of non-broker dealer designated orders have been completed, or the PM/Trader may employ the use of another trade execution process (such as "step-outs") to satisfy a client that has designated the use of a particular broker-dealer.

## 1.8. Order handling and execution strategy

### 1.8.1. General terms of order handling

When executing orders an execution trader must provide fair and equitable treatment to all clients. This will be achieved by the following:

- Treat orders, whether aggregated or not (see section 1.8.2), in a non-preferential manner regardless of size or complexity; i.e. no single portfolio may be systematically favored over another;
- Promptly and accurately record orders on a recognized system unless the characteristics of the order or prevailing market circumstances make it impracticable;

### 1.8.2 Aggregation of orders

When aggregating orders execution traders must maintain all principles of best execution and provide fair and equitable treatment to all clients; no single account may be systematically favored over another. An execution trader may aggregate orders to give its clients the benefits of efficient and cost-effective delivery of AM services, or to improve outcomes for all clients.

Aggregation of orders will be managed according to the following principles and should be:

- Consistent with AM's duty to seek best execution for all client accounts;
- Advantageous (or unlikely to be disadvantageous) to all clients whose orders are to be aggregated;
- Executed in such a way as to ensure all local regulatory obligations are met
- Where applicable, disclosed to the client.

Execution traders must use judgment, experience and any prevailing market information to determine when orders should be aggregated. If in doubt, execution traders will consult with their local CORC teams with respect to the foregoing principles.

### 1.8.3 Allocation of orders

Portfolio Managers are responsible for creating order allocations. When allocating market fills to an aggregated order, all portfolios must be treated in a non-preferential manner such that no single account may be systematically favored over another. The allocation of market fills cannot be biased based upon the client's account type, performance, fee structure, and/or the Portfolio Manager.

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<sup>1</sup> Lot Definition: A "lot" is defined as a number of contracts exchanged between two parties as part of a single and unique transaction at a single price at a single point of time.

If an order is partially filled, the order should be allocated among portfolios on a pro-rata basis in the same proportions as the set allocation methodology, unless the interests of the clients require otherwise.

Where applicable, each portfolio participating in an aggregated ("Blocked") order may receive one of three types of final price computations based on the concept of pro-rata and average pricing:

- Average Price – an average price is a representative measure of a range of prices that is calculated by taking the sum of the values and dividing it by the number of prices being examined;
- Best Fit Price – Where average pricing is not allowed, the average price for each account within a Block will be calculated utilizing a "best fit" allocation algorithm which assigns individual traded Lot to each account such that the variance in average prices across the accounts is minimized. (Common in futures markets);
- Real-Time Allocated Price – Real-Time Allocated Price is the various individual contracts within a Lot to each account within an aggregated order as the order is being filled, using a real-time pro-rata allocation method. The resulting average price for each account is determined based on the actual lots the account receives during the live execution.

All market fills should be fairly allocated across all portfolios in the aggregate that are eligible to receive a portion of the order. If for any reason an order requires a non-standard allocation there needs to be a sound business rationale that is consistent with AM's fiduciary responsibilities.

A 'non-standard' or 'non pro-rata' allocation can be defined as any allocation that does not follow the set allocation process as recorded in our internal procedures for the portfolios in question.

The factors which may support a non-standard allocation include, but not limited to:

- Odd lot positions and minimum tradable amounts;
- Minimum due to ticket fees (custodial fees);
- Clients' account investment objectives, guidelines, and constraints;
- Availability of cash given long settlement periods (ex – Loan markets); and
- Liquidity needs.

Generally, trade allocations must be communicated to the broker or custodian by close of business on the day of execution (local time). If orders are executed overnight or confirmed allocations provided after local market close, the allocations can be communicated by close of business the following trading day (local time).

## 1.9. Cross transactions

Regulatory standards require AM to maintain oversight on the use of cross transactions (where buy and sell orders for the same security or instrument are executed between AM managed portfolios). Depending on local regulation and other internal procedures, cross transactions can either be executed externally (on venue or exchange) or internal (not utilizing any external venues or exchanges). Cross transactions must always be for the benefit of both parties and never put the interests of one portfolio above the interests of another; e.g. a cross should never be executed for the sole purpose of allowing portfolio 'A' to provide liquidity support to portfolio 'B'. When a cross transaction is executed the following principles should be adhered to:

- Be in the best interests of both portfolios to the trade;
- Must be consistent with the duty to seek best execution for all client accounts;
- Comply with any client restrictions or local regulations;
- Must be executed at arm's length in terms of a fair price with de-minimis or no cost to either portfolio and identifiable for compliance monitoring;
- Identifiable for compliance monitoring

## 1.10. Order executed outside a trading venue

When carrying out a client order, execution traders may execute a trade outside of a trading venue to achieve the best possible result. This may increase the risk faced, including, but not limited to counterparty risk. Orders executed outside a trading venue are subject to internal controls.

Where applicable under local law, execution traders must obtain and document client consent when executing or placing client orders outside a trading venue.

## 1.11. Misuse of information

AM Execution traders must not misuse information relating to pending client orders and should take all sufficient steps to prevent the misuse of such information. Execution traders may not use the information in one order or pending order to benefit another client. Execution traders must also employ the firm's policy on Information Barriers.

## 1.12. Inducements / execution commissions / incentives

No inducements are received from venues and counterparties, excluding minor, non-monetary benefits in order to comply with the Conflicts of Interest policy. The definition of inducements and minor, non-monetary benefits may differ between different jurisdictions.

## 2. Monitoring «

### 2.1. Standard for checking Best Execution and Order Handling

Execution traders must check the quality and effectiveness of their order execution arrangements to identify and, where appropriate, correct deficiencies. Execution traders must be aware of the various execution methods available to them and the impact the methods may have upon the orders being processed, in order to offer the best possible result for the client. The Best Execution Forums maintain a list of execution venues and are informed of changes or additions.

Where applicable, under local laws or regulations, execution traders must hold regular meetings or discussions of relevant trading and execution issues. This is formally achieved via the quarterly Best Execution Forum, and as needed when issues arise. Issues addressed should include, but are not limited to: commissions, brokerage relationships and execution capabilities. In addition, trading activities of each execution trader should be reviewed periodically for the purposes of monitoring the overall trading volumes with particular venues or broker-dealers.

CORC will undertake the second line of defense monitoring of adherence to best execution and order handling obligations.

### 2.2. Record Keeping

Trade tickets, evidence of trade confirmations, allocation records and other documentation required under this Policy are retained in accordance with the Records Management Policy.

### 2.3. Updates to this policy

The various Best Execution Forums within AM will review the Best Execution and Order Handling Policy at least annually, and whenever a material change occurs that affects AM's ability to continue to obtain the best possible result for its clients.

## 3. Compliance and Governance «

AM may establish multiple Best Execution Forums to cover pertinent trading activities across the Investments business area. The forums will operate in parallel with consistent standards, providing oversight of ongoing adherence to the Best Execution and Order Handling Policy.

The Forums will meet on a quarterly basis and consider the findings of monitoring activities by the trading desks and CORC. The Best Execution Forums are responsible for (i) reviewing the execution framework and approving relevant practices, policies and procedures, (ii) reviewing key process controls and (iii) addressing organizational and business issues related to global trading processes.

Governance established for purposes of Best Execution and Order Handling must adhere to existing UBS governance requirements that pertain to relevant roles and responsibilities, operational requirements, terms of reference, escalation and regular reviews and assessment of governance processes and related documentation.

To that end, each Best Execution Forum must draft and maintain Terms of Reference (hereafter “ToR”) that include the items described below in addition to those required by the Group Governance Standards and the Group Governance Documents Framework. This ToR may cross-reference or otherwise incorporate governance documentation for Sub-Committees, Forums, Working Groups and other governing bodies that are relied upon to ensure the relevant Business Unit is meeting its Best Execution and Order Handling obligations. Furthermore, the ToR must include a protocol for escalations to Senior Management Committees and any other Committees to which Best Execution and Order Handling issues would be escalated.

## 4. Roles and Responsibilities

### 4.1. AM Trading Functions

All relevant AM trading staff (execution traders) are responsible for taking sufficient steps to identify Conflicts of Interests that exist between the Firm and its Clients with respect to Best Execution and Order Handling, in accordance with the Group Policy on Conflicts of Interests and take all sufficient steps to obtain the best possible results for UBS Clients by taking into account the Key Requirements in Section 1 above.

### 4.2. Best Execution Forums

AM has established Best Execution Forums which provide oversight of ongoing adherence to the Best Execution and Order Handling Policy. The Best Execution Forum membership consists of senior trading and investment representatives. Representatives from CORC will participate in each forum to monitor consistency and adherence to the policy, other control functions may participate as invited guests.

### 4.3. Business Risk and Control Functions

Business risk and control functions controlling and overseeing the handling and execution of Client Orders are responsible for controlling and overseeing adherence to the principles of this policy.

### 4.4. Escalation Protocol

The first line of defense is responsible for escalating any risk or issues to the area head and head of Investments. In addition, the standard escalation protocol defined in the Non-Financial Risk Events Management Guidance (1-G-001454) must be followed. Any escalations are reported to the regional AM Front to Back meetings and AM Operating Forum.

## 5. Client Information and Consent «

Clients who have been provided with this published document will be deemed to have accepted the arrangements put in place under this policy when they next place an order for execution with AM, or where they appoint AM to provide discretionary services.

Should clients require further information about AM's Best Execution and Order Handling Principles, please raise them with your AM contact.



## Glossary

**Execution Traders: Any trader or Portfolio Manager who is responsible for executing trades**

**Client Order:** Means a transaction for buying or selling one or more financial instruments on behalf, or at the request of, a client.

**Execution Entity:** Means an entity to which UBS transmits orders for execution.

**Execution Venue:** Means a Regulated Market, an MTF, a Systematic Internalizer, or other liquidity provider or an entity that performs a similar function to the function performed by any of the foregoing.

**Executor of Orders:** The entity undertaking the execution of Client Orders on behalf of clients.

**Financial Instrument:** A tradable asset of any kind.

**Multi-lateral Trading Facility (MTF):** Means 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.

**Organised Trading Facility (OTF):** Means a multilateral system, which is not a regulated market or MTF and in which multiple third parties with buying and selling interests can interact in a way which results in a contract.

**Over The Counter (“OTC”):** The execution of client orders outside of regulated markets or MTF, directly between two parties without any supervision or exchange.

**Receiver and Transmitter of Orders (RTO):** An entity that transmits or places Client Orders received from clients to/with Execution Entities.

**Systematic Internalizer:** Means an investment firm which, on an organized, frequent and systematic basis, deals on own account by executing Client Orders outside a regulated market or an MTF.



## Key procedural controls

KPC ID	KPC title
CTRL-0000039315	Best Execution – N-KPC_03.04.04
CTRL-0000039316	Fair Allocation – N-KPC_03.03.06
CTRL-0000039314	Broker & Counterparty approval and reviews – N-KPC_03.04.02



## Further references and links

ID	Title
1-C-007976	Group Governance Standards
1-P-005763	Employee Conduct Related to Electronic Communications Policy
1-P-001296	Group Policy on Conflicts of Interest
1-P-000011	Governance Documents Framework
1-P-000355	UBS Entities
5-P-001339	New Business Control Framework
5-P-002450	Securities and Loan Allocations Policy
1-P-004686	Information Barriers



# Policy ownership and review

Owner: *Lynn Challenger (Head of Global Trading)*

NFR Taxonomy: 16. Transaction Processing and Execution

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