

MiFID II INFORMATION

What is MiFID II?

Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 is the current European regulations governing investment services (*Markets in Financial Instruments Directive*, (hereinafter “**MiFID II**”), whose main purpose is to enhance the protection of investors. In turn, it has two implementing provisions, Delegated Directive (EU) 2017/593 of the Commission of 7 April 2016 and Delegated Regulation (EU) 2017/565 of the Commission of 25 April 2016. In Spain, this legislation was transposed by Royal Legislative Decree 4/2015 approving the consolidated text of the Securities Market Act (hereinafter, “**LMV**”) and Royal Decree 217/2008 of 15 February on the legal regime of investment services companies and other entities providing investment services. The regulations apply only to certain products, such as variable-income shares, fixed-income assets and monetary markets, investment funds and derivatives of stock markets and over-the-counter markets.

Since the National Securities Market Commission’s, in Spanish Comisión Nacional del Mercado de Valores (hereinafter “**CNMV**”) authorisation of Capital Strategies Partners, A.V. S.A. (hereinafter, “**Agency**” or “**CSP**”) as a securities agency in 2008, the agency continuously updates all procedures in order to adapt to and comply with the aforementioned regulations at all times. In this context, CSP informs its clients of the relevant general information on both the entity and the various financial instruments and services it provides contained in the following sections.

The contents of this document can be expanded upon through our website www.capitalstrategies.es.

Main objectives

The main objectives intended to be achieved with the Directive are to:

- 1) Complete the EU’s single financial services market.
- 2) Respond to changes and innovations in relation to market security.
- 3) Protect investors, ensuring maximum market transparency.

Capital Strategies Partners, A.V. S.A.'s adaptation to the MiFID Directive

As a result of the CNMV's authorisation of Capital Strategies Partners, A.V. S.A. as a securities agency back in 2008, the agency has been involved in a continuous process of adaptation and compliance firstly with the MiFID Directive and now with the MiFID II Directive.

1. Background information

Capital Strategies Partners, A.V., S.A., with Tax ID Code A85345445 and registered address at Paseo de la Castellana 178, 3º Izq., 28046 Madrid (Spain), is registered in National Securities Market Commission Register under number 230 and registered in Madrid's Companies Register on 27 February 2008, volume 25.320, book 0, page 121, section 8, sheet M-455981, entry 1.

All products and services provided by the Agency are subject to current legislation and are supervised by the CNMV and other regulatory bodies.

For further information, you can contact the Comisión Nacional del Mercado de Valores, Calle Edison 4, Oficina de atención al inversor, 28006 Madrid (Spain), telephone number +34 91 585 150000 or through its website www.cnmv.es.

2. Business continuity policy

The objective pursued is to ensure the continuity of the business and to establish a plan to cover other risks, regardless of whether they can or cannot paralyse the Agency's activities. The design of a Business Continuity Plan allows the agency to not paralyse its activities in the face of serious disasters or contingencies. In particular, the objective is to ensure, in the event of a disruption of systems and procedures, the following:

- The preservation of essential data and functions.
- The maintenance of investment services and activities.
- Where the foregoing is not possible, the timely recovery of the data and functions and the timely resumption of investment services and activities.

3. Record-keeping policy

Article 16 (6) of the MiFID II Directive provides that any investment company must keep a record of all the services, activities and transactions it carries out. This record must be sufficient to enable the competent authority to monitor compliance with the requirements set out in this Directive and, in particular, with all the investment firm's obligations to its clients or potential clients.

4. Customer classification policy

The applicable regulations establish a customer classification system comprising three different categories that aim to reflect both their level of knowledge and experience in financial markets and their ability to assume the risks arising from their investment decisions with the aim of adapting the the protection rules to them:

- **Retail client** (mainly all individuals acting as natural persons, SMEs, local entities, etc.): They receive the highest level of protection provided for in the law, both in carrying out assessments of their suitability and appropriateness and in the scope of the documentation and information that must be made available to them prior and subsequent to concluding the contract.
- **Professional client** (mainly institutional and experienced investors, regional entities, etc.): They receive an intermediate level of protection, as it is assumed that they have the experience, knowledge and qualifications necessary to take their own investment decisions and to understand and assume the risks thereof.
- **Eligible counterparty client** (banks, savings banks, investments and pension funds, SICAVs, securities companies, central banks, insurance companies, national governments and their corresponding services, etc.): for these clients, the law provides for a basic level of protection, given that these are entities accustomed to acting directly in financial markets.

The regulations set out objective classification criteria that have been strictly observed by the agency in order to carry out individualised communication with the clients.

Accordingly, all the Agency's current and potential clients must be classified as "**retail**", "**professional**" or "**eligible counterparty**". This classification sets each client's level of protection as provided for in the current regulations and, therefore, the relationship the company must maintain with each client type.

Due to the type of business we have been engaged in so far, all our clients – duly regulated financial institutions – have been classified as “**eligible counterparties**” or “**professional clients**”.

In accordance with the Client Classification Policy, clients have the right to explicitly request a classification change; this must be justified and then subsequently assessed and approved by CSP (Annex 1). On the basis of the request for change made, the Agency will inform the client, where applicable, of the new classification assigned or the denial thereof. In the event that the new classification granted arises from data that CSP cannot directly verify or cannot completely verify and are based on the information provided by the client itself, the latter is responsible for the accuracy and veracity thereof, with the agency exempt from any damage or liability that may arise from the inaccuracy or lack of truthfulness of the aforementioned data and information. However, CSP may request additional information necessary to verify such data from the client, should this be necessary for the allocation of the classification requested.

5. Procedure for the provision of investment services¹

CSP provides a brokerage service exclusively related to the marketing of collective investment institutions hereinafter “**CIIs**”), specifically, putting investors and managers of CIIs in contact. This means that the Agency does not receive orders or cash from investors and that it does not have any direct contractual relationship with the final investor.

6. Information on the management of conflicts of interest

CSP has defined and approved a Conflict of Interests Policy whose purpose is to identify situations that may potentially result in a conflict of interest between the entity and its clients or several clients among each other, in order to establish the procedures and measures designed to prevent them, ultimately informing clients in circumstances in which conflicts might not be avoided.

That policy sets out rules designed to ensure that clients’ interests are not prejudiced by the potential emergence of conflicts of interest.

¹The term “investment service” includes, according to Annex I, Section A of Directive 2014/65, the execution of orders on behalf of clients, the receipt and transmission of client orders in relation to one or more financial instruments and investment advice.

To that end, we have adopted a Policy on the Prevention and Management of Conflicts of Interest, whose content is based on three pillars:

- I. Implementation of an Internal Code of Conduct that must be complied with by the entities' people or third parties that may generate a conflict of interests.
- II. Management measures for related-party transactions.
- III. Measures designed to maintain an appropriate degree of independence and segregation of duties in the Agency.

7. Pre- and post-contractual information

The objective is for CSP to provide investors with the information necessary for taking their investment decisions and knowing what the status of both their transactions and their investments is. At the same time, it will regularly send the information published by the managers/clients to institutional investors through the established channels. As regulated in Article 24 of the MiFID II Directive, the entity must act honestly, fairly and professionally in the best interests of its clients.

8. Incentive policy

Fees, commissions or non-monetary benefits paid by or received from CSP from third-party entities with the provision to their clients of investment services regarding financial instruments are "incentives". The incentives paid or received do not prevent the Agency from seeking its clients' best interests. In situations where CSP received incentives, it will apply the mechanisms and measures established so that the services and products offered to clients are suitable and adequate, in accordance with current legislation. The Agency provides its clients with tools that make it easier for them to take investment decisions and gives them sufficient information to properly monitor them.

The payment or benefit which enables or is necessary for the provision of investment services by CSP, such as custody costs, settlement and exchange fees, regulatory levies or legal fees, and which by its nature cannot give rise to conflicts with the Agency's duties to act honestly, fairly and professionally in the best interests of its clients, is not subject to the requirements for enhancing service quality.

The existence, nature and size of the payments or benefits of the permitted incentives received or granted will be disclosed to the client *prior* to the provision of the service. However, where said amount cannot be determined, the methodology for calculating it must be clearly disclosed to the client in a comprehensive, accurate and comprehensible manner before the provision of²the relevant investment service or ancillary service.

It is a general principle that the Agency ensures that no fees or commissions will be charged or paid in its business relations, nor will non-monetary benefits that may impede its acting in its clients' best interest be received or provided.

CSP will receive the fees appropriate for each case from the clients/managers with which it has entered into agreements. These fees may vary over time or depending on the total sales volume.

Within the CIIs marketing service, the Agency will not receive any commission directly from the investor.

The situations with incentives from third parties received by the Agency are detailed below:

- In sales of CIIs to qualified or professional clients managed by third parties with which the Agency has agreements, it receives fees for the outsourcing of its marketing, sales, client services and business development quantified as a percentage of the net management commission received by the CIIs, with net management commission understood as the amount left after subtracting the management commission charged by the fund, any type of retrocession to distribution platforms or to the investor itself, if any.
- In no event do these incentives received by CSP represent any extra cost for the final investor.
- Exceptionally, and in cases where the fund manager receives success commissions for investments in institutions sold by CSP, this latter may receive a percentage of the net success commission received by the CIIs manager.
- The Agency may receive a percentage of the amount invested for the sales of structured products issued by third-party entities to qualified clients.

²The term "ancillary service" includes the services included in Annex I, Section B of Directive 2014/65.

In accordance with the legal and regulatory terms, a fee, commission or non-monetary benefit is designed to enhance the quality of the relevant service to the client if all the following conditions are met:

- a. It is justified by the provision of an additional or higher level service to the relevant client, proportional to the level of inducements received, such as the provision of non-independent investment advice on investment combined with all or one of the following services:
 - another ongoing service that is likely to be of value to the client, such as access to monthly reports;
 - ongoing contact with the client for clearing up doubts.
- b. It does not directly benefit CSP, its shareholders or employees without tangible benefit for the client concerned;
- c. It is justified by the provision of an ongoing benefit for the client concerned in relation to an ongoing incentive.

9. Policy on recordkeeping of electronic communications and telephone conversations

The main new development of the MiFID II Directive is the development of the conditions applicable to keeping records of electronic communications and telephone conversations, as well as the reconstruction of transactions.

In the context of the provision of investment services to its clients, CSP has appropriate means to ensure the security, confidentiality and reliability of the service provided.

The Policy aims to establish the requirements that must be taken into in respect of recording and keeping records on the telephone conversations and electronic communications carried out, whether sent or received, and whether for the purpose of contracting an investment product or service or prior to the conclusion of said contract.

10. Knowledge, skills and experience

Article 193 of the Securities Market Act relative to the requirements for internal organisation, establishes that investment services companies and other entities providing investment services must define and implement appropriate policies and procedures to ensure that the company, its managers, its staff and its agents fulfil the obligations imposed on them by the securities market legislation.

In this regard, CSP has staff with knowledge and skills back by qualifications approved by the CNMV to provide information on CIIs.

11. Classification and governance of products

The products CSP offers are mainly CIIs; on occasion, they are structured products.

These products, which fall under the scope of the MiFID regulations, are classified as complex or non-complex, based on their level of risk, liquidity and financial complexity.

The NON-complex products fulfil each and every one of the following four characteristics:

- ✓ They can be reimbursed frequently at prices known by the public. In general, it is always easy to know their value at any time and encash them.
- ✓ The investor cannot lose an amount higher than their acquisition cost, i.e., what it initially invested.
- ✓ There is public, comprehensive and understandable information for the retail investor on the product's characteristics.
- ✓ These are not derivative products.

Complex products are those products that do not comply with all or one of the above characteristics. They may pose greater risk for the investor, they tend to have less liquidity (sometimes it is not possible to know their value at a given time) and, ultimately, it is more difficult to understand both their characteristics and their associated risk.

In any event, CSP has the EMT files (files exchanged between the management companies and the distributors of CIIs with the aim of enabling them to comply with the obligations arising from MiFID II relating to the target public and the costs and expenses of financial instruments) where the target public is defined and the following headings for them are known:

- General information on the financial instrument
- Target public - Client type
- Target public - Knowledge and/or experience
- Target public - Capacity to bear losses

- Target audience - Risk tolerance
- Target public - Client needs and objectives
- Distribution strategy
- Ex ante costs and expenses
- Ex post costs and charges

12. Assessment of appropriateness and suitability

One of the fundamental objectives of the MiFID regulations is to ensure the appropriateness and suitability of the products and services sold by institutions to clients.

Test of appropriateness

The appropriateness test will be carried out only on retail clients prior to the conclusion of the contracts in order to assess the client's knowledge and experience to contract complex products. Capital Strategies Partners, A.V. S.A., does not provide investment services to retail clients.

Test of suitability

It will be necessary to complete the suitability test prior to the provision of services of discretionary management of portfolios and/or advice on investment matters. The objective of the suitability test is for the profile description of the client and the allocation of the portfolio to meet its objectives, financial situation, knowledge and experience.

Capital Strategies Partners, A.V. S.A., does not provide advice or discretionary management of portfolio services.

13. Nature and risks of MiFID products

Collective Investment Institutions

Collective investment institutions are institutions aimed at attracting funds, assets or rights of the public to manage and invest them in assets, rights, bonds or other instruments – financial or not – establishing the investor's performance based on the collective results. Its legal form may be that of an investment fund or investment company; among the latter category, the most common are the variable capital investment companies (Spanish acronym SICAV).

Investment funds (hereinafter, IF), are separate assets without legal personality belonging to a plurality of investors, including among them other CIIs, whose management and representation are carried out by a management company that has the power to control without being an owner of the fund, with the arrangements of a trustee.

Investment companies (hereinafter, IC), take the form of a limited company, with its company purpose being that described above for CIIs. When this is provided for by the articles of association, the shareholders general meeting or, via delegation, the board of directors, may agree that the management of its assets, in total or in part, are entrusted to one or several SGCI or to one or several institutions empowered in Spain to carry out the investment service provided for in the securities market regulations.

In the case of investment funds, the participants, or investors, are the persons that provide their savings to the investment fund. They are co-owners of the fund's assets, and a percentage of the fund corresponds to them based on their contributions (number of holdings). In the case of investment companies, investors have the status of partners.

The net asset value of holdings or shares is the result of dividing the total assets of the fund among the number of existing holdings or shares. The management company will regularly publish the net asset value of the fund or company. The value of a holding in an investment fund or a share in an investment company will depend on the evolution of the value of the assets that make up its portfolio.

The most relevant characteristics of investment funds are as follows: the existence of a wide variety of investment funds differentiated by the type of assets in which they invest, i.e. their investment aim, professional and specialised management of investment decisions, the diversification of investments in order to diversify risks and thus protect investors, and the possibility of accessing financial products that, on occasion, would not be available to the client through direct investment.

The CNMV carries out an analytical classification as follows:

- **Mutual funds.** These are collective investment institutions that invest in financial assets.
- **Property investment funds.** These are collective investment institutions that invest primarily in buildings to be operated via leases. These are funds, in general, that are less liquid than those of a financial nature.

In turn, financial assets investment funds may be of different types:

- **regular**, that invest mostly in fixed income, variable income and/or derivatives.
- **funds-based**, that invest mostly in other investment funds,
- **subordinated**, that invest in a single investment fund;
- **index**, whose investment policy seeks to replicate a certain index and
- **exchange-traded**, whose peculiarity is that they are traded on securities markets, like shares.
 - Other funds:

Exchange traded funds

Exchange traded funds are funds traded on securities markets as if they were shares in a company. Their investment policy consists of replicating the evolution of a domestic or international market index, such as, e.g. the Ibex. There are also exchange listed fund used as fixed-income indices as references.

Hedge funds

These are also known known as alternative investment funds. Their main feature is that they can invest without the constraints that the rest of the funds have (asset type, diversification of investments and indebtedness).

Foreign collective investment institutions

They are established in another country. Generally, they are investment companies and, just as in a Spanish fund, the trader (the institution selling it) must provide the investor with the information brochure on the fund (key investment document) containing all the necessary information. The difference is that the regulations governing them are not Spanish, but rather those of the country of origin, so there may be difference, e.g. with regard to the product's liquidity.

Harmonised funds and companies – those that comply with the requirements of the European UCITS Directive on diversification of risks – are not complex.

Because they entail a derivative, hedge funds, property funds and traditional guaranteed variable income funds are complex.

Main risks: the risks will depend on the type of collective investment institution, on the characteristics of the institution itself and on the assets in which it invest, as well as the geographical areas defined for carrying out the investments. All these characteristics are listed

in each institution's brochure, registered and published in the National Securities Market (CNMV).

Structured products

Structured products are financial instruments that allow their investors obtain, within a specified period, a final return tied to the evolution of an underlying asset (a stock exchange index, a specific share or a basket of shares, raw materials, interest rates, etc.).

They are based on the combination of derivative products and/or fixed-income products that make it possible to design a strategy in accordance with the level of risk/return assumed. Although there are structured products that guarantee 100% of the capital invested (although they do not additionally guarantee additional income, this section includes other, unsecured structured products that, unlike the secured ones, offer the investor interest payments in specific scenarios and whose design is based on the return/risk combination, and on specific market expectations.

Main risks:

- **Market risk:** changes in market price that may mean the investor obtains an amount lower than that invested. The interest of the product is normally tied to the evolution of the underlying asset.
- **Interest rate risk:** this will depend on the evolution of interest rates during the investment period.
- **Credit risk:** this is the possibility that the issuer cannot meet its payment commitments or that they are delayed.
- **Underlying asset risk:** The return on the product depends on the evolution of the underlying asset to which it is referenced and on its issuer.
- **Capital risk:** In unsecured structured assets, the issuer is not obligated to return the initial capital invested.
- **Liquidity risk:** This refers to the difficulty of reversing the investment before the maturity date, which may result in price penalties, if a fast sale is necessary. In addition, it is possible that no counterparty is available in the market, and thus it is possible that a sell order may not be immediately carried out.
- **Exchange rate risk:** This is when the currency in which the product is issued is different to that of the investor.

ANNEX 1
REQUEST FOR MiFID CLIENT CLASSIFICATION CHANGE

Name and surname/social Business name ID/Tax Code No. hereby acknowledges that xxxxxxxx xxxxxxxx xxxxxxxx (hereinafter XXX) that he/she/it has been notified in a timely and proper manner of the classification of the client assigned to him/her/it, as well as the right to request a different classification and its implications in the protection standards applicable thereto, and requests, for all services that XXX might provide to him/her/it regarding any type of financial instrument, a change in the classification he/she/it was notified of, in the terms and conditions set out in this request.

Type of change requested: (mark the correct option with an X).

1. To less protection: (for which XXX will assess compliance with the requirements set out by the MiFID Directive and will inform the client of the results)

From retail client to professional client

Case 1

For which I declare I comply with at least two of the following conditions:

- 1. Have carried out transactions of significant size on the securities market at an average frequency of 10 per quarter over the previous four quarters,
- 2. That the value of my financial instrument portfolio consisting of cash deposits and financial instruments is higher than 500,000 euros.
- 3. That I hold or have held for a professional position in the financial sector that requires knowledge of the transactions or services provided.

Case 2

That, with regard to the last financial year, I comply with at least two of the following conditions:

- 4. Total assets > 20 MM Annual turnover >44 MM Own resources > 2 MM

From professional client to eligible counterparty

For which I declare I belong to at least one of the following groups:

- Financial institutions and legal persons authorised by regulatory bodies to operate in financial markets.
- Institutions that make up part of the State Administration; central banks, international and supranational bodies.

2. To greater protection (this change will be carried out directly, based on the client's simple request with his/her/its signature)

- From professional client to retail client
- From eligible counterparty to professional client

Date:

Signed: