

**Best Execution Policy for Customer Orders  
"Axiom Invest" Ltd.**

**BEST FULFILLMENT POLICY OF CUSTOMER ORDERS**

**I. GENERAL**

**Art. 1. (amended by decision of 17.04.2024)** This Policy was developed on the basis of Art. 86, para. 1 of the Financial Instruments Markets Act (MFIA) and Delegated Regulation (EU) 2017/565 supplementing Directive 2014/65/EU of the European Parliament and of the Council regarding the organizational requirements and conditions for carrying out activities by investment intermediaries and for the definition of the chains of the said directive (Delegated Regulation 2017/565). This policy applies to all financial instruments that are traded on or off a trading venue /regulated market, Multilateral Trading System /MTS/, Organized Trading System /OST/, and to which the IP has access, as far as this policy nothing different is intended.

**Art. 2. (1) (amended by decision of the Managers dated 30.06.2022)** This Policy aims to ensure a high quality of execution of transactions for the account of clients of IP " Axiom Invest " Ltd. and to maintain the integrity and efficiency of the financial system when the investment intermediary:

- a) executes orders on behalf of clients;
- b) accepts and transmits orders in relation to one or more financial instruments;
- c) gives orders for the execution of transactions on behalf of clients in connection with a client's portfolio managed by the investment intermediary.

(2) A description of the financial instruments and the risks associated with them are specified in Annex I to this policy.

**II. APPENDIX**

**Art. 3.** This policy does not apply in the following cases:

**1. acceptable counterparties** – if the client is classified by the investment intermediary as an acceptable counterparty, then he does not benefit from the best execution protection under this Policy. Any client designated as an eligible counterparty may expressly request not to be considered such a counterparty in whole or for a particular transaction. When concluding a transaction with or for an acceptable counterparty from a third country, the investment intermediary should have the express confirmation of the person that he agrees to be treated as an acceptable counterparty.

**2. special instructions of the client** - when the client provides specific instructions regarding the entire order or some aspect of the order, including a requirement to execute the order at a specific place of execution, the investment intermediary executes the order in accordance with these instructions. Thus, the investment intermediary is deemed to have taken all reasonable and necessary steps to achieve the best result for the client in respect of the entire order or the aspect of the order contained in the client's instruction.

**Art. 4.** When placing an order on an electronic trading platform ( Xetra , etc.), the client selects all parameters of the order and the latter is classified as submitted with special instructions. In this case, the investment intermediary acting on behalf of the client, providing him with access to the system, is considered to have performed due diligence to achieve the best result for the client. In the event that the electronic system allows some parameters of the order not to be indicated, the investment intermediary shall take care of the best execution in accordance with this Policy.

**III. PRINCIPLES**

**Art. 5. (1) (amended by decision of the Managers dated 30.06.2022)** IP " Axiom Invest " Ltd. fulfills the orders of its clients in their best interest in accordance with the Policy adopted by the investment intermediary, taking into account the price, costs, speed of execution and settlement, the amount, the nature, as well as all other circumstances related to the execution of the order.

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**(2) (amended by decision of the Managers dated 30.06.2022)** When performing investment services and activities for the account of clients, the IP " Axiom Invest " Ltd. acts honestly, fairly and as a professional in accordance with the best interests of their customers.

**(3) (amended by decision of the Managers dated 30.06.2022)** IP " Axiom Invest " Ltd. treats its clients equally.

**(4) (amended by decision of the Managers dated 30.06.2022)** In compliance with the obligation to achieve the best result for the client, " Axiom Invest " Ltd. fulfills the orders of its clients as soon as possible, unless this would be clearly disadvantageous for the clients.

**(5)** The investment intermediary makes reasonable efforts to establish the best price for the client according to the terms of the order, amount of costs, probability of execution, as well as all other circumstances related to execution of the order.

**(6)** The investment intermediary cannot execute orders on behalf of clients if they have not given their prior consent to this Policy.

**(7) (amended by decision of the Managers dated 30.06.2022)** In case of specific instructions from the client, IP " Axiom Invest " Ltd. executes the order, following these instructions, as in relation to the factors that determine the best execution in the best interest of the client, for which there are no instructions, the investment intermediary makes a relevant judgment.

**(8)** Any special instructions of the client may prevent the intermediary from taking the necessary actions to achieve the best result when executing client orders in accordance with the order execution policy for that part of the order to which the special instructions refer instructions.

**IV. FACTORS WHICH IS CONSIDERED AND EVALUATED WHEN EXECUTING CUSTOMER ORDERS**

**Art. 6. (1) (amended by decision of the Managers dated 30.06.2022)** IP " Axiom Invest " Ltd. fulfills the client's order in the best interest of the client, and in order to fulfill this obligation, it makes reasonable efforts to establish:

1. The best price for the client according to the terms of the order: The price of financial instruments is an important factor that the investment intermediary considers when executing client orders. This factor, assessed together with the costs of execution of a client order, is considered by the investment intermediary to be the most important factor in relation to the intermediary's retail clients, as well as in the selection of the place of execution of client orders.

2. The amount of expenses: The expenses related to the execution of client orders is the second most important factor that the investment intermediary considers along with the price for the financial instruments. Execution costs include all costs that are directly related to the execution of the order, including execution venue fees, clearing and settlement fees, as well as other fees and remuneration payable to third parties involved in the execution of the order. Costs are also decisive for the choice of place for execution of customer orders.

3. Volume/number of financial instruments: The volume or number of financial instruments of the client's order has a direct relation to the price of the financial instruments and the costs of the transaction. Depending on the volume of the order, different places can be selected for the execution of the customer's order.

4. Execution speed: The price of financial instruments also depends on the speed of execution of customer orders. The investment intermediary takes this factor into account when choosing the places for execution of client orders.

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5. The probability of execution: The investment intermediary assesses for each specific case the probability that the client's order will be executed and chooses the place of execution of the order based on this.

6. Type and substance of the order: The investment intermediary assesses what would be the best result for the client and evaluates all the listed factors according to the nature and type of the latter's order: sale, purchase, exchange, etc.; limited, market, etc.

7. Any other factors that are relevant to the execution of the customer's order and the achievement of the best result.

**(2) (amended by decision of the Managers dated 30.06.2022)** When executing customer orders, the IP " Axiom Invest " Ltd. takes into account the relative importance of the execution factors under para. 1 according to the following criteria:

1. the characteristics of the client, including whether it is defined as a non-professional or professional client;

2. the characteristics of the client's order, including when the order is related to a securities financing transaction;

3. the characteristics of the financial instruments subject to the order;

4. the characteristics of the places of execution to which the order can be directed for execution.

**Art. 7.** Additional Criteria Applicable to Retail Client Orders.

**(1)** When executing an order submitted by a non-professional client, the best execution of the order is determined by the total value of the transaction, including the price of the financial instrument and the costs related to the execution. Execution costs include all costs that are directly related to the execution of the order, including execution venue fees, clearing and settlement fees, as well as other fees and remuneration payable to third parties related to the execution of the order.

**(2)** To achieve the best execution, in cases where there is more than one competitive place for the execution of an order in connection with financial instruments and when making an assessment and comparison of the results that can be achieved for the non-professional client when executing placing the order at each of the places of execution specified in this policy, which are suitable for its execution, the commission of the intermediary and the costs of executing the order at each of the possible places of execution are taken into account.

**V. PLACES OF PERFORMANCE**

**Art. 8. (1) (amended by decision of the Managers dated 30.06.2022)** IP " Axiom Invest " Ltd. can fulfill the orders of its customers at the following places of execution:

1. Bulgarian Stock Exchange (BSE) - a regulated securities market, which, through a unified trading system, concentrates the demand and supply of financial instruments that meet minimum requirements, and assists in:

- the conclusion of transactions with these financial instruments at market prices;
- achieving liquidity of financial instruments;
- centralized distribution of market information.

2. Outside the regulated market

3. Multilateral trading system

Client orders may also be executed outside a regulated market or multilateral trading facility only if the intermediary's clients are notified in advance and have given their express consent.

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**(2) (amended by decision of the Managers dated 30.06.2022)** IP " Axiom Invest " Ltd. will not structure or charge its commissions in a way that unfairly discriminates between order execution locations.

**(3) (amended by the decision of the Managers dated 30.06.2022, by the decision of 17.04.2024 and by the decision of 30.07.2024)** the IP transmits the execution orders to its partners /brokers/, who directly or indirectly through another broker, are members of this market that have mechanisms, rules and procedures guaranteeing the fulfillment by the IP of its obligation to act in the best interest of the client when transmitting client orders for execution. The PE relies heavily on the following execution venues, according to the class of traded instrument:

1. Client orders for transactions with shares, bonds, compensatory instruments and other financial instruments registered on a regulated market in Bulgaria are executed **indirectly** through the "Intercapital Markets" PE of the "Bulgarian Stock Exchange" AD;

2. Client orders for transactions with shares and rights to them, registered on the "Warsaw Stock Exchange" incl. alternative trading system "New connect", organized by the "Warsaw Stock Exchange" are implemented **indirectly** through the IP "Intercapital Markets";

3. The IP has access **indirectly** through the IP Intercapital Markets to the following trading places, incl. through an electronic platform provided by IP Intercapital Markets:

- regulated securities markets in EU countries, North America, etc. foreign markets;

-financial institutions providing organized, frequent and systematic execution of orders for transactions with contracts for difference, etc. financial instruments.

4. The IP has access **indirectly** through a platform provided by EXT LTD /Exante Ltd, Republic of Cyprus, having license No.: 165/12 for the provision of services as an investment intermediary issued by CySEC/ located at [www.exante.eu](http://www.exante.eu) to the following trading places:

-regulated securities markets in EU countries, North America, etc. foreign markets;

-financial institutions providing organized, frequent and systematic execution of orders for transactions with contracts for difference, etc. financial instruments.

5. The IP has access **indirectly** through a platform provided by Incore JSCo /Republic of Armenia, licensed by the Securities Commission of the Republic of Armenia with the following licenses: license for brokerage services BL 0037/15.06.2001; trust management license TML 0038/ 15.06.2001/, located at [www.incore.am](http://www.incore.am), to the following trading locations:

-regulated securities markets in EU countries, North America, etc. foreign markets;

6. The PE has access **indirectly** through the EFOCS-Xetra trading platform of the Frankfurt Stock Exchange to the Deutsche Borse (Xetra-Frankfurt), provided by the EURO-FINANCE JSC located at [www.eurofinance.bg](http://www.eurofinance.bg). And giving access to:

-Bulgarian Stock Exchange and Xetra - FRANKFURT STOCK EXCHANGE

*An exhaustive list of the brokers through which IP Capital Markets, EXT LTD and Incore JSCo and "Euro-Finance" JSC execute orders are indicated on their websites, incl. through the relevant Client Order Execution Policy where applicable.*

**(4) (amended by decision of 17.04.2024)** The list under para. 1 with the places of execution, as well as the persons to whom the IP submits an order or to whom he transmits the orders for

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execution, is not exhaustive and may be changed. The investment intermediary may use other venues of execution that it deems appropriate in accordance with this Policy. The investment intermediary will regularly evaluate and analyze the possible new places of execution and will update para. 1 above. In this regard, the client will be notified of the changes made to the list of performance locations.

**(5)** Regarding some financial instruments, real execution of the transaction is possible only at one place of execution. When executing a client order under such circumstances, the investment intermediary is considered to have achieved the best result for the client.

**( 6 ) (new with a decision dated 17.04.2024)** If the PE receives an order from a client relating to such a financial instrument, for which the PE does not have the opportunity to achieve the best results for the client because it does not have access to the relevant place of execution, which would provide the best results, the IP should disclose this information to the client and seek specific instructions from the client regarding the order.

**(7) (new, with a decision of 17.04.2024)** Choice of place of execution can be provided to the client through the relevant trading platforms.

**VI. SUBMISSION AND EXECUTION OF CUSTOMER ORDERS**

**Art. 9. (1)** The investment intermediary accepts orders for transactions with financial instruments submitted personally by the client or his duly authorized representative, and in the case of clients – legal entities – by a duly authorized representative. Except in cases of portfolio management, the investment intermediary carries out transactions with financial instruments for the account of clients only on the basis of orders submitted by clients with the following minimum content:

1. names (designation) and unique customer number of the customer and his representative, and if such numbers are not assigned - the relevant identification data. When the investment intermediary assigns a unique number to its clients, it keeps a register for them that contains at least this number and the following data: the three names, social security number, residence and address, corresponding name, unique identification code, tax number, seat and address of the client, and if the client is a foreign person - similar identification data. In the register according to the previous sentence, the corresponding identification data for his representative or proxy, number and date of the proxy are entered, and the investment intermediary can assign a unique number to the representative or proxy as well;

2. type, issuer, issue identification code or name of the instrument, respectively characteristics of the derivative financial instrument and number of financial instruments to which the order refers;

3. type of order;

4. essence of the order (acquisition of or release from a financial instrument);

5. unit price and total value of the order;

6. term of validity of the order;

7. place of execution at which the order will be executed, if the customer specifies one;

8. quantitative execution of the order (partially, fully);

9. method of payment;

10. date, time and place of submission of the order;

11. other specific instructions of the customer;

12. indicating whether the order was submitted as a result of an investment consultation;

13. way of submitting the order.

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(2) Paragraph 1 does not apply when the order is submitted through an electronic trading platform, when the details of the orders are not determined by the investment intermediary.

(3) The order shall also include its unique serial number.

(4) When submitting an order, the customer be informed about:

1. this policy;
2. financial instruments and the risks associated with them;
3. the places of execution of orders on which the investment intermediary relies significantly in fulfilling its obligation to take all reasonable steps to consistently achieve the best possible results in the execution of client orders and specifying the places of execution used for each class of financial instruments;
4. for the costs and fees of the transaction;
5. where the client's assets (financial instruments and money) can be stored, by whom they can be stored and what is the responsibility of this person;

(5) Submission of orders through a proxy shall be carried out only if he submits a notarized power of attorney, which contains a representative authority to perform dispositional actions with financial instruments. A copy of the identity document of the client, respectively of his representative, certified by him and by the person who concludes the contract for the investment intermediary remains in the archive of the investment intermediary. The certification is carried out with the inscription "True with the original", date and signature of the person who performs the certification. When submitting the orders under para. 1 in entered in the register under Art. 30, para. 1, item 2 ZKFN address of management, branch or office of the investment intermediary, if upon checking the client's identity it is found that there is a change in the personal data and/or a new identity document has been issued to him, a copy of the new identity document of the client, respectively of his representative, certified by him and by the person who concludes the contract for the investment intermediary remains in the archive of the investment intermediary.

(6) When orders are submitted by telephone, the investment intermediary is obliged to make a recording of the conversation with the client, which shows the content of the order according to para. 1. When the orders are submitted by another remote method, the investment intermediary is obliged to store on an electronic medium the data provided by the client in connection with the orders. Fax messages are stored on paper.

(7) Subsection 6 does not apply to an order submitted by a representative who has not certified to the investment intermediary his representative authority, or by a proxy who has not previously submitted to the investment intermediary the documents required according to the applicable legislation for the activity of investment intermediaries.

(8) Paragraph 6 does not apply regarding the transfer of non-available financial instruments from a personal account to a client sub-account to the investment intermediary in the Central Depository.

(9) **(supplemented by decision of 17.04.2024)** The investment intermediary may accept orders from clients under para. 1 through an electronic trading system that guarantees compliance with the requirements of the applicable legislation and provides access to the client to a specific place of execution. The access to the system according to the previous sentence and the entry of orders by the customer is carried out through web, computer and/or mobile applications that provide reliable identification of the customer. At the moment, the IP accepts orders from clients through an electronic system for submitting orders for transactions with financial instruments, access to which is provided by the IP Capital Markets, - Infront, operating in automatic mode when submitting and executing the order. In cases where automatic confirmation of orders submitted through Infront is allowed /ie

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without the need for confirmation by an IP broker/, it is likely that they will be executed before orders submitted by phone, e-mail or on-site at the IP.

**(10)** When accepting an order, the person accepting it verifies the identity of the client, respectively of his representative.

**(11)** The investment intermediary refuses to accept an order that does not meet the requirements under para. 1 or was submitted by a proxy without meeting the requirements under para. 5.

**(12)** The investment intermediary provides the client with a signed copy of the accepted order under para. 1, unless it is submitted according to para. 6 and 9.

**Art. 10. (1)** The investment intermediary may accept orders for transactions with financial instruments as follows:

1. **(amended by decision of the Managers from 30.06.2022)** On site in the office of the IP. When submitting orders on-site at the office of IP "Axiom Invest" Ltd., they are accepted only in a registered office under Art. 30, para. 1, item 2 of the Law on the Financial Supervision Commission address of the management office, by employees authorized by the IP.

2. Absent in the following several ways:

a) by remote means of communication: by telephone, fax or e-mail. The investment intermediary may accept orders for transactions in financial instruments submitted by telephone or through another remote means of communication from clients. By signing a contract for the provision of a certain type of investment service, the client gives his consent to the recording of the telephone conversations held with the employees of the investment intermediary. The customer is informed and agrees that when accepting orders by phone, the relevant IP employee will require the customer to dictate relevant personal data for the purpose of correct identification. The contract can be concluded at a distance by exchanging electronic statements signed with an electronic signature according to Art. 13 ZEDE UU . The client, respectively his representative, sends a copy of his identity document, signed in accordance with the previous sentence, to the IP, and for clients - legal entities - and a copy of commercial registration documents containing data on the establishment and representation.

b) The investment intermediary may accept orders for transactions with financial instruments in absentia by exchanging the necessary documents signed by the parties, provided that the client is the holder of an account opened in a credit institution or a payment institution/payment service provider licensed in a country – a member of the European Union, or a party to the Agreement on the European Economic Area. In the event that the client is determined by the IP as a person with a low or medium risk, the credit institution, respectively the payment institution/payment service provider through which the payments are made can be persons with a registered office and from a member state of the Group for financial action against money laundering (FATF), the Asia-Pacific Anti-Money Laundering Group (APG), the Eurasian Anti-Money Laundering and Terrorist Financing Group (EAG) or the Committee of Experts on the Evaluation of Anti-Money Laundering Measures of money (MONEYVAL) to the Council of Europe. The client, respectively his representative, sends to the investment intermediary the signed contract, an original document issued by the relevant institution that the client is an account holder and a certified copy of his identity document, and for clients - legal entities - and a certified copy of documents for commercial registration containing data on establishment and representation. The certification is carried out by affixing the inscription "True with the original", date and signature of the customer. Fund transfers in connection with the receipt and provision of investment and additional services by the client under a concluded contract are made only from and to a payment account maintained by an institution under the first sentence of which the client is the holder. It is not allowed to conclude a contract according to the order of this letter through a proxy.

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c) The investment intermediary may accept orders for transactions with financial instruments in absentia by exchanging the necessary documents, on paper, signed by the parties, with the client signing in the presence of a notary who certifies this circumstance. The provision of all necessary information by the client in accordance with the MFPA, the acts on its implementation and the regulations with direct effect, as well as the provision of information by the client necessary for the evaluation of a suitable service, can be done by the client remotely by signing the necessary documents before notary public. The client, respectively his representative, sends to the investment intermediary the signed contract with notarization of the signature, a certified copy of his identity document, and for clients - legal entities - and a certified copy of commercial registration documents containing data on the establishment and representation. Verification of the identity document and commercial registration documents is carried out with the inscription "True with the original", date and signature of the customer.

3. The investment intermediary can accept customer orders through an electronic trading system that guarantees compliance with the requirements of the MFFI, the acts on its implementation and the regulations with direct effect and provides access to the customer to a specific place of execution. The access to the system according to the previous sentence and the entry of orders by the customer is carried out through web, computer and/or mobile applications that provide reliable identification of the customer.

**(2)** Subsection 1 does not apply to an order submitted by a representative who has not certified to the investment intermediary his representative authority, or by a proxy who has not previously submitted to the investment intermediary the documents required under the MFFI, the acts on its implementation and the regulations with direct action.

**(3)** Paragraph 1 does not apply to the transfer of non-available financial instruments from a personal account to a client sub-account to the investment intermediary in the Central Depository.

**(4)** The investment intermediary provides the client with a signed copy of the accepted order under para. 1, unless it is submitted according to para. 1, item 3.

**Art. 11. (1)** The types of orders that the customer may file on a regulated market, are defined in Part IV "Trading Rules" of the BSE Rules of Procedure, as well as in the applicable legislation.

**(2) (amended by decision of the Managers dated 30.06.2022)** Client orders submitted for execution on the BSE are executed in accordance with the applicable legislation, the General Terms and Conditions for Transactions with Financial Instruments of IP "Axiom Invest" OOD, the contract for brokerage services, order for purchase or sale of financial instruments, as well as this Policy.

**(3)** The order of the customer is received by the front office, handed over to an employee of the "Financial Instruments Trading" department for processing, after which the broker enters the execution order into the trading system. The customer it should be borne in mind that the procedure from acceptance of the order to its introduction for execution in the trading system requires a certain technological time.

**Art. 12. (1)** The sole proprietor has no right to execute an order if he finds that the financial instruments - the subject of the sale order - are not available on the client's account or are blocked in a depository institution, as well as if a lien has been established on them or a lien has been imposed on them distraint.

**(2)** The prohibition under para. 1 regarding pledged financial instruments does not apply in the following cases:

1. the acquirer has been notified of the established pledge and has expressed express consent to acquire the pledged financial instruments and there is express consent of the pledge creditor in the cases provided for by the Law on Special Pledges;

2. the bet is established on an aggregate within the meaning of the Law on special bets.

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(3) The prohibition under para. 1 in relation to an order for the sale of financial instruments that are not available on the client's account does not apply in cases where the investment intermediary ensures in another way that the financial instruments subject to the sale will be delivered on the day of settlement under the deal.

**Art. 13. (1)** The investment intermediary executes client orders under the following conditions:

(a) prompt and accurate recording and distribution of execution orders;

(b) consecutive and immediate execution in the order of their receipt of otherwise comparable customer orders, except when the characteristics of the order or the prevailing market conditions make this impracticable or the interests of the customer do not require the contrary;

(c) the investment intermediary informs the non-professional client of any significant difficulty related to the correct execution of the orders, immediately after becoming aware of them.

(2) Where an investment intermediary is responsible for supervising or arranging the settlement of an executed order, it shall take all reasonable measures to ensure that all client financial instruments or client funds received in the settlement of that executed order are promptly and correctly delivered to the respective customer's account.

(3) The investment intermediary shall not misuse information relating to pending client orders and shall take all reasonable steps to prevent misuse of such information by any of its relevant persons.

**Art. 14. (amended by decision of the Managers dated 30.06.2022)** The best execution of an order is achieved when IP "Axiom Invest" Ltd. has made reasonable and possible efforts to establish the best price for the client, according to the terms of the order, the amount of costs, the probability of execution, as well as all other circumstances related to the execution of the order.

**Art. 15. (amended by decision of the Managers dated 30.06.2022)** IP "Axiom Invest" Ltd. does not execute an order of a client or a transaction for its own account grouped with an order of another client, unless the following conditions are met:

1. it is unlikely that the grouping of orders and transactions will generally be detrimental to any client whose order will be grouped;

2. it is brought to the knowledge of each customer whose order will be grouped that the grouping may lead to consequences that are detrimental in relation to a particular order;

3. an order allocation policy is established and effectively implemented, which provides for the correct allocation of grouped orders and trades, including the ways in which the volume and price of orders determine the allocation and treatment of partial executions.

**Art. 16. (amended by decision of the Managers dated 30.06.2022)** IP "Axiom Invest" Ltd. combines customer orders in the following cases:

1. in case there are orders from customers with the same price and at the place of execution, the best counter offer is for a larger quantity and price that satisfies the orders. Thus, both orders are executed at the same price, but the earlier accepted order is processed first.

2. when customer orders are at different prices and at the place of fulfillment, the best counter offer is for a larger quantity and price that satisfies both orders. Again, both orders are executed at the same price and the earlier accepted order is processed first.

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3. in the event that, upon entering the combined offer, the counter offer is changed and the combined offer is executed in several parts and at different prices, or even partially executed, the previously submitted order has priority.

**Art. 17.** The investment intermediary does not have the right to execute a client's order for transactions with financial instruments, if this would lead to a violation of Delegated Regulation 565/2017, ZPFI, the Law on the Implementation of Measures against Market Abuse of Financial Instruments, the Law on Special Investment Companies purpose or other applicable regulations.

**Art. 18.** When a client's limited order with the subject of shares admitted to trading on a regulated market or traded on another trading venue is not executed immediately under the current market conditions, the investment intermediary shall take measures, unless the client expressly gives other instructions, for as long as possible - the quick execution of this order by making public the customer's order in accordance with Art. 70 of Delegated Regulation 565/2017.

**Art. 19. (amended by decision of the Managers dated 30.06.2022)** The obligation under Art. 18 is deemed to be fulfilled by the IP " Axiom Invest " Ltd. with the transmission of the limit order to a regulated market and/or multilateral trading system or when the order is published by a data reporting service provider established in a member state.

**Art. 20. (amended by decision of the Managers dated 30.06.2022)** IP " Axiom Invest " Ltd. may not comply with the obligation under Art. 18 if the order volume does not correspond to the normal market volume.

**Art. 21. (amended by decision of the Managers dated 30.06.2022 and by decision dated 17.04.2024)** When receiving and transmitting orders, the IP observes the obligation to act in accordance with the best interests of its clients when transmitting their orders to others execution entities, respecting the requirements for selection and control over these entities.

**Art. 22. (amended by decision of the Managers dated 30.06.2022)** IP " Axiom Invest " Ltd. cannot execute orders on behalf of clients if they have not given their prior consent to this Policy.

**Art. 23.** The investment intermediary requires a client who submits an order for the purchase of financial instruments to provide him with the funds necessary to pay for the transaction - the subject of the order, upon submission of the order, unless the client certifies that he will fulfill his payment obligation. If the rules of the place of execution at which the transaction will be concluded allow for the conclusion of a transaction in which the payment of the financial instruments does not take place simultaneously with their transfer, the investment intermediary may not require payment from the buyer in the presence of the express written consent of the seller. This applies accordingly to other transfer transactions with financial instruments.

**Art. 24.** The information stored by the investment intermediary about the transactions concluded with financial instruments for the account of a client contains data on at least the identity of the client and on the actions taken to implement the Law on Measures Against Money Laundering and the Law on Measures Against the Financing of Terrorism.

**Art. 25.** The investment intermediary stores the information about the services and activities performed under Art. 6, para. 2 and 3 of ZPFI at least 5 years.

## VII. POLICY UPDATE

**Art. 26. (1) (amended by decision of the Managers dated 30.06.2022)** IP " Axiom Invest " Ltd. constantly monitors the effectiveness of this Policy and the quality of the execution of orders, and when necessary takes measures to eliminate identified irregularities.

**(2)** The investment intermediary shall once a year carry out an inspection of this Policy and the agreements for execution of orders.

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(3) Inspection under para. 2 is also carried out with any significant change that may affect the ability of the investment intermediary to constantly provide the best results for the execution of client orders when using the execution venues included in this Policy.

(4) The investment intermediary is obliged to promptly notify its clients of changes in this Policy.

**VIII. DEFINITIONS**

Throughout this Policy, the following definitions shall have the meaning set forth opposite them, except in conflict with a legal definition, in which case the latter shall prevail:

1. "Client" is a natural or legal person to whom an investment intermediary provides investment or additional services.

2. **(amended by decision of the Managers dated 30.06.2022)** "Professional client" is a client who has the experience, knowledge and skills to make investment decisions independently and correctly assess the risks associated with investing, and who meets the criteria on the basis of which the customers of the IP " Axiom Invest " Ltd. are qualified.

3. "Non-professional client" is a client who is not designated as a professional client or as an acceptable counterparty.

4. "Eligible counterparty" is an investment intermediary, credit institution, insurance company, collective investment scheme, management company, pension fund, pension insurance company, other financial institutions that have a license or are regulated by the legislation of the European Union and the member states, national governments, public authorities that manage public debt, central banks and international institutions, as well as such persons from third countries to which requirements equivalent to those of European Union legislation apply. Acceptable counterparties can also be considered other persons who meet the requirements set out in Art. 71 of Delegated Regulation 565/2017 requirements, including persons from third countries.

**IX. FINAL PROVISIONS**

§ 1. When problems are identified in practice, the overcoming of which requires an amendment or supplement to this Policy, the competent authority can promptly change it, being guided by the legal requirements.

§ 2. The representatives of the IP may issue orders and instructions on the implementation of this Policy.

§ 3. This Policy is provided for the information and implementation of the employees of the intermediary upon their assumption of office and they provide a declaration that they are familiar with them, which is applied to the other documents related to the performance of their duties in the investment intermediary.

This Policy was adopted by decision of the Managers of the IP "Axiom Invest" OOD dated 19.11.2020, 30.06.2022. 17.04.2024 and 30.07.2024

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**Appendix I**

**DESCRIPTION OF FINANCIAL INSTRUMENTS  
AND THE RISKS ASSOCIATED THEREWITH**

*This review of the general and specific risks of investing in the relevant financial instruments aims to identify the main risks for the investor, rather than their assessment, probability of occurrence and hedging techniques.*

*Given the possible risks, IP's clients should enter into transactions in financial instruments only if they understand the nature of the contracts and legal relationships and the level of risk exposure in relation to the contracts they are trading. Clients should carefully consider whether trading in these instruments is suitable for them in relation to their experience, objectives, financial capabilities and other relevant circumstances.*

*In the event that the financial instruments are admitted to trading on a regulated market, it is recommended that each investor familiarize himself with the historical data on trading with them or with similar financial instruments in order to better understand and accept the risks described below.*

*In addition to the described risks to which he is exposed in his capacity as an investor in the specific financial instruments, each investor must also carefully inform himself about the nature and specificity of the risks related to the activities of the issuers. These risks are different for each issuer and are usually described in prospectuses, memoranda or other types of documents that each issuer prepares in the process of issuing the financial instruments and/or when admitting them to trading on a regulated market.*

Financial instruments within the meaning of the Financial Instruments Markets Act are:

1. transferable securities;
2. instruments other than securities:
  - a) money market instruments;
  - b) units of collective investment undertakings;
  - c) options, futures, swaps, forward contracts with a fixed interest rate and any other derivative contracts related to securities, with currencies (with the exception of those defined pursuant to Article 10 of Delegated Regulation (EU) 2017/565 of the Commission of 25 April 2016 to supplement Directive 2014/65/EU of the European Parliament and of the Council with regard to the organizational requirements and conditions for carrying out activities by investment intermediaries and to provide definitions for the purposes of the said directive), with interest rates or with profitability, with emission allowances or with other derivative instruments, financial indices or financial indicators that are settled with physical delivery or with cash settlement;
  - d) options, futures, swaps, forward contracts with a fixed interest rate and any other derivative contracts related to goods for which cash settlement must be made or for which cash settlement can be made at the request of one of the parties (except in cases of non-performance or other grounds for termination of the contract);
  - e) options, futures, swaps and any other derivative contracts relating to commodities which can be settled by physical delivery when they are traded on a regulated market, on a multilateral trading facility (MTF) or on an organized trading facility (OTF), with the exception of wholesale energy products traded on the OTF with settlement with physical delivery, defined according to Article 5 of Delegated Regulation (EU) 2017/565;

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f) options, futures, swaps, forward contracts, as well as any other derivative contracts related to goods that can be settled with physical delivery, other than those under b. "e", which are not for commercial purposes and have the characteristics of other derivative financial instruments according to Art. 7, paragraph 1, 2 and 4 of Delegated Regulation (EU) 2017/565;

g) derivative financial instruments for the transfer of credit risk;

h) contracts for differences;

(i) options, futures, swaps, forward interest rate agreements, and any other derivative contracts relating to changes in climate, freight rates or inflation rates or other official economic statistics for which monetary settlement is required or may be made to carry out a monetary settlement at the request of one of the parties (except in cases of non-performance or other grounds for terminating the contract), as well as any other derivative contracts related to assets, rights, obligations, indices and indicators other than those specified in this article, which have the characteristics of other derivative financial instruments, depending on whether they are traded on a regulated market, MST or OTS, determined according to Art. 7, paragraph 3 and Art. 8 of Delegated Regulation (EU) 2017/565;

j) emission allowances consisting of any units recognized as complying with the requirements of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a greenhouse gas emission allowance trading scheme within Community and amending Directive 96/61/EC (emissions trading scheme).

**Additional clarifications regarding the financial instruments with which the PE carries out transactions:**

**Shares**

The share is a title of ownership certifying that their owner or bearer participates in the company's share capital and is entitled to part of its profit. The capital with which such a company is created is divided into a certain number of shares with a precisely defined nominal value. The nominal value of the shares can theoretically be any, as long as the number of issued (issued) shares multiplied by their nominal value gives as a result the capital subscribed by the shareholders. Also theoretically, the nominal value of a share is also the limit of the possible claims of the shareholders to the company's assets in case of its liquidation. Shareholders of a company have the right to participate in its management and receive a proportionate share of the profits in the form of an annual dividend if the company decides to pay one. Dividends are not guaranteed, and a company may decide not to pay dividends or to pay a smaller amount than in previous periods.

**The ordinary share** entitles its holder to vote in the company's general meeting, which elects the management and/or supervisory board and makes decisions on major issues of its activity - capital increase, merger, termination of activity, liquidation, etc. The holder of the ordinary share a share is entitled to a dividend, to a capital gain and to a liquidation share. Up to the amount of his shares, the owner is responsible for possible losses from the company's activities. For example, in bankruptcy, the company owes all its creditors and the holders of preferred stock, and the balance is distributed among the holders of common stock. Holders of ordinary shares vote at the general meeting with the number of shares held in person or through proxies. Common shares are securities with high risk, because they are issued for an indefinite long term and the income from them depends entirely on the result of the company's economic activity.

**Preference shares** are part of the equity capital of the joint-stock company. They give the right to a dividend (paid from the net profit) and to a liquidation share. Holders of preference shares cannot vote at general meetings of ordinary shareholders. The liquidation share of preferred shareholders is paid before the share of ordinary shareholders, but after the claims of all other creditors have been satisfied.

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Depending on whether a company's shares are traded on a regulated capital market, they are divided into public and non-public shares.

*Public share* – a share that is traded on a regulated capital market. It was issued through an initial public offering (public issue) or a secondary public offering was carried out.

*Non-public share* - a share that cannot be traded on a regulated capital market. It can be the subject of purchase and sale only by direct negotiation between the seller and the buyer.

When investing in stocks, investors can generate profit by selling those stocks. The return on the investment is not guaranteed because the price of a share depends both on the performance of the respective company and on the market assessment of its performance, the economic situation, the relevant sector and the company-specific risk. For the above reasons, the risk of investing in stocks is not only related to non-payment of dividend, but also to the possibility of capital loss. The admission of shares to a regulated market does not guarantee their liquidity. Stock investments can be very profitable as well as very losing. They are among the riskiest securities of the so-called traditional instruments. Any decision to buy or sell stocks must be preceded by an assessment of potential gains and losses.

When trading shares, the investor is exposed to **various types of risk**:

- *Price risk* – this is the main risk in this type of trading and is expressed in the possibility of an unfavorable movement of share prices. The value of shares admitted to trading on a regulated market is determined by supply and demand, and their price may rise or fall. Prices can fluctuate wildly and fall below the price at which investors acquired them. The stock price is affected by publicly announced corporate events and financial results that may be weaker than market expectations. Macroeconomic data and other factors can affect the price. If an investor is long in a certain stock (means he bought shares), he is exposed to the risk that its price will decrease, and vice versa – if he is short (means he has sold shares), he will lose if the price rises.
- *Liquidity risk* - this is a risk deeply inherent in share trading, especially in the Bulgarian stock market. Even if the current price satisfies the investor, it is possible that he will not be able to close a deal for the volume he wants due to lack of sufficient counter-interest. The risk of not being able to get out of a position for a long period of time is also very high if an investor trades in low-liquidity shares. It is possible that a stock may not be traded for several days. Investors in shares whose investment horizon is shorter than the life of the securities may not be able to complete at the desired time all or part of their investment and be forced to sell/buy the shares at a significantly lower price than the current one their fair value or last market price. This may result in an inability to realize capital gains or an inability to prevent losses on the part of investors. Investing in shares admitted to trading on a regulated market can limit the impact of this risk by providing access to a wide range of investors to trade in financial instruments.
- *Stock market risk* - the possibility of trading in shares on the relevant regulated market to be suspended by decision of the exchange itself. This will result in a temporary inability to exit a position or enter a new position.
- *Inflation risk* – the shares of any company are exposed to the risk of a decrease in their real value as a result of an increase in inflation, i.e. this risk is associated with the probability that inflation will affect the real return on the investment made in shares of a given company. The increase in inflation is related to an increase in the general level of prices in the country.

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- *Currency risk* - occurs in cases where investments are made in foreign currency and their value depends on the exchange rate of the respective currency, i.e. this risk arises from the probability of a subsequent change in the exchange rate of the currency in which the relevant financial instruments are denominated against other currencies. Shares denominated in Bulgarian leva are also exposed to currency risk. Although the fixing of the exchange rate to the single European currency – the euro limits fluctuations in the exchange rate of the national currency, it could be considered that the currency risk for investments in Bulgarian leva remains higher compared to that for investments in the euro area, insofar as the stability of the fixed exchange rate system is dependent on the level of the central bank's foreign exchange reserves and the country's balance of payments.
- *Technological risk* - in the event of a breakdown in the communication systems, it is possible to temporarily or for a longer period lack the opportunity to trade in financial instruments.
- *Risk of a sharp change in the stock price* - stock prices are very volatile and can change by tens of percent within minutes. Usually, stock exchanges set a daily price range that they cannot move out of. On the Bulgarian Stock Exchange, it is between 15 and 30% compared to the price of the previous day.
- *Risk of non-payment of dividend* – all ordinary shares are characterized by the risk of uncertainty when receiving a dividend (variability in the amount of the dividend) and, in particular, its payment. Each share entitles to a dividend in proportion to its nominal value. The amount of the dividend is a variable amount that depends on the amount of the company's profit. The company's profit after taxing it with the taxes due is subject to distribution. The company's ability to generate profit is subject to other specific risks directly related to the activity of the issuer. The decision on the distribution of profit is adopted by the General Meeting of Shareholders (GM). For a given year, the company may not make a profit or the General Assembly may not decide on its distribution in the form of a dividend.

### **Rights**

In the case of an issue to increase the capital of a public joint-stock company in our country, a rights issue must be applied. The rights issue provides each shareholder with the opportunity to retain his share in the joint-stock company by purchasing a corresponding part of the newly issued shares. This is done in the following way. For each old share, one "right" is given to participate in the new issue. Through the ratio between the old shares in circulation and the newly issued shares, it is determined for how many "rights" one newly issued share can be purchased.

In a rights issue, the offer price is usually much lower than the market price. In this way, old shareholders are given the opportunity to acquire shares with a higher market value for less cash capital, effectively receiving a portion of the retained earnings of the company. A term for exercising the rights is also determined. If the rights are not exercised within this period, they are sold through a public auction on the stock exchange. The "rights" themselves receive a market price that depends on the difference between the market price of the shares and the offer price of the issue. The stock exchange ex officio transfers the money from the sale of the "rights" to the old shareholders. In this way, the interests of those shareholders who do not have the financial opportunity or do not wish to make an additional investment in the joint-stock company are preserved.

The price of one right is equal to the difference between the market price of the shares and the offer price of the issue divided by the number of rights for which one new share is acquired plus 1.

New investors can become shareholders in the public company by purchasing shares from the issue only if they buy "rights" on the exchange.

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Due to the difference between the market price of the shares and the offer price of the issue, a "rights" issue causes a dilutive effect. It manifests itself in a decrease in the market price of the shares immediately after the issue. This effect is quickly neutralized by the increase in the share price due to the expectations of a high financial effect from the investment of the capital obtained through the issue.

**Warranties**

Warrants give the holder the right, but not the obligation, to buy a predetermined quantity of securities at a predetermined price within a specified period or on a specified date. The Law on Public Offering of Securities (PLPA) defines a warrant as a security that expresses the right to subscribe to a certain number of securities at a predetermined or determinable issue value until the expiration of a certain period.

**Bonds**

Obligation comes from the Greek "obligare", which in translation means "obligation", "binding". Bonds are long-term securities testifying that their issuer is indebted to their holder. The practice of issuing bonds to raise funds has more than a hundred years of history and today it is widespread both at the micro level - in the issue of corporate bonds, and at the macro level - in the issue of municipal or government debt securities. Bonds are usually issued to finance an investment project, to cover expenses or a deficit. World practice indicates that usually bonds are a method of long-term financing and are issued for periods of 5 to 20, and in some cases, more years. There are several basic characteristics that are important in determining the value of bonds. *The face value* expresses the amount that the bond investor provides to the issuer in the form of credit against promised future interest payments or, in the case of discount bonds, against a price discount. The face value is the amount that the investor will receive at maturity of the respective security. *The coupon* is an important characteristic that determines the investor's interest in a given bond, as it is the main factor, along with the price, that directly affects the yield received by the investor. Coupon payments are set as a percentage of par, and this percentage can be fixed for the entire term of the bond or floating relative to a publicly quoted interest rate. Another important characteristic is *the maturity* of the bond. It characterizes the distance in time of the return of the amount borrowed by the investor from the issuer. This characteristic of bonds in the conditions of a developed financial system is not essential due to the possibility of pre-sale of a security on the secondary capital market. The price of the bonds depends on the coupon payments and the denomination of the respective security. It represents the sum of the discounted coupon payments on the bond, plus the present value of the face value.

**Three main types of bonds are common:**

- **Mortgage bonds** – these are fixed income securities and are considered one of the lowest risk investment options. Against them stand loans that are guaranteed by mortgages on homes. Issuers of mortgage loans in Bulgaria are commercial banks. The bonds are issued in euro and leva, which eliminates the currency risk. Currently, banks issue papers with a relatively short maturity - maturities of the issues are between 2 and 5 years, and most of them have 3 years to pay. This term differs significantly from the time for which mortgage loans are concluded - between five and twenty years. The mortgage bond market in Bulgaria is still at the beginning of its development, but the trading of these instruments on the BSE is one of the fastest growing segments of the market.
- **Municipal bonds** - Several municipalities have issued bonds in recent years, some of which have been placed abroad. Municipal bonds are considered to be relatively low-risk securities, as the obligations of their issuers are backed by regular tax revenues and the assets of the municipalities.

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- **Corporate bonds** - A part of the issues are not offered publicly, and in most cases the placement is private and for institutional investors. The development of this segment of the bond market is under the pressure of the expansionist credit policies of the banks, which offer loans to their corporate clients at market levels. Listing on the stock exchange gives additional value to the issues. It provides liquidity to their trade, which banks maintain for capital gains. The main buyers of corporate bonds are pension funds, which buy some of the bonds in banks' portfolios as they look for new investment opportunities.

Stock market prices can theoretically fluctuate much wider than bond prices. Due to the differences in the financial stability of individual issuers, *the risk of non-return of the loan* is different. Due to the presumption that country bankruptcies are more of an exception, their debts are considered the least risky. Next in this order are the debts of the municipalities. Although not guaranteed by the respective country, such bonds are considered safer than corporate bonds. The latter bear the highest degree of risk, which is naturally reflected in the higher yield that investors can get. In convertible bonds giving the bondholders the right to exchange their bonds for shares, the bondholders become shareholders and lose their previous rights. The issuer also has the right to request the exchange of bonds into shares. In this case, the bondholder is exposed to the same risks that he is exposed to when investing in shares.

In addition to the inherent risk of default for each issuer, there are various methods for assessing financial stability, on the basis of which the so-called credit rating of the issuer is determined.

Profit from bonds can have two sources - interest and exchange rate differences in price. Cash flows are also of two types - from interest and from principal. Interest can be paid all at once at maturity, over a specified period or calculated into the issue price (discount bonds). The principal can also be paid all at once at maturity and over a specified period. Interest-bearing bonds are the most common in Bulgaria, i.e. those in which the interest is paid over a certain period, with the last interest being paid together with the principal at maturity.

Investing in bonds is characterized by the following specific risks:

- *Credit risk* - bondholders are exposed to the risk of not being paid on time or in full by the issuer of the due interest payments and/or principal on the bond loan upon maturity. The prerequisites for assessing this risk are entirely related to the activity of the issuer and the risks to which it is exposed in the course of its main activity;
- *Interest rate (price) risk* - the assessment of interest rate risk when investing in bonds is reduced to measuring the dependence between the change in bond prices and their yield, based on the rate of return required by the investor;
- *Reinvestment risk* – this is the possibility that the cash receipts (payments) received during the holding period of the debt securities (bonds) will be reinvested at a yield different from the yield to maturity realized during the initial investment in the bonds. If the coupon payment amounts are reinvested at levels lower than the initial yield to maturity, the effective return on the investment will be lower than the initial yield to maturity and vice versa;
- *Risk of prepayment* - such a risk exists when the terms of the issue provide for an option to buy back the debt securities before maturity and it is exercised, whereby the investor cannot fulfill his initial investment intentions;
- *Conversion risk* – such risk exists when the conditions of the issue provide for the possibility of converting them into shares at the initiative of the issuer before or at maturity. As a

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consequence of the conversion, the investor acquires another financial instrument instead of the expected cash receipts and thus cannot fulfill his original investment intentions either.

**Mutual funds**

**(amended by decision dated 30.06.2022)** At the client's request, "Axiom Invest" Ltd. offers participation in the name and account of the client in units of mutual funds. Mutual Funds are a type of open-ended collective scheme, for investing mainly in Bulgarian shares, in shares of foreign companies accepted for trading on internationally recognized and liquid regulated markets, in shares/units of other collective investment schemes. Investing can be in stocks, bonds or a combination of these. The money in the mutual funds is professionally managed and each investor owns a proportional share of the portfolio according to the amount invested.

The investment product was created for citizens, companies, institutions, ready to invest money in the medium and long term, to take a low to moderate investment risk, in order to realize a higher income and wish to have secure and quick liquidity, without violates the achieved income from the investment, like to diversify the risk of their own portfolio and want their money to be managed by professionals in the financial markets.

Depending on the type of securities they invest in and the degree of risk they take, mutual funds are of several types. In general, they can be divided depending on the degree of risk into: low-risk, balanced and high-risk. The main difference between them is the degree of price volatility and income opportunities that their shares provide. These characteristics form the so-called main characteristics of the relevant investment strategies.

The risk profile of the fund and the return on investment in it are directly related. Usually, high yield is associated with riskier investing. Low-risk funds, on the other hand, offer security of the investment (as far as such can be said), but at the expense of this low yield. An intermediate option is balanced funds. They achieve relatively high returns, with moderate risk. When choosing a fund in which to invest sums, the Risk/Reward relationship must always be taken into account. Comparing the returns of funds with different risk profiles is not correct and may lead to wrong conclusions and inappropriate choices.

The risks associated with investing in mutual funds are as follows:

- *Market risk* - The market prices of the fund's investments may fluctuate due to changes in the economic and market environment, and the value of the fund's units would fall in certain periods.
- *Interest rate risk* - This is the probability that the return on investments in debt instruments will be better or worse than expected due to changes in the interest rate.
- *Credit risk* - The issuer, or the person guaranteeing the debt securities in which the fund invests, may be unable or refuse to pay the interest or principal due.
- *Currency risk* - Occurs in cases where investments are made in foreign currency and their value depends on the exchange rate of the respective currency.
- *Liquidity risk* - This is the probability that the fund will not meet its obligations due to the inability to obtain adequate financing or liquid assets.
- *Political risk* - Occurs in the event of adverse internal political upheavals and changes in economic legislation.

**Exchange traded fund**

Exchange-traded funds invest investors' funds in shares of companies of a certain index, sector, commodity price, etc., but unlike traditional mutual funds, they are listed on the stock exchange and their shares are freely traded on it.

Advantages of Exchange Traded Funds:

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- Diversification - provide an easy and transparent way to invest in a given exchange, it is no longer necessary to analyze and monitor each stock.
- Liquidity - Fund units can be bought and sold at any time in large volumes.
- No capital gains tax. According to Bulgarian legislation, profit from instruments traded on a regulated market is exempt from tax, both for individuals and legal entities.
- Lower costs. Lower transaction costs compared to investing in several individual stocks.

The risks of exchange-traded funds are the same as when investing in mutual funds, including:

- risk of passive management of the Fund - for example, volatility in the level of the Reference Index may lead to volatility in the value of the Fund's assets;
- corporate event risk - for example, unforeseeable changes by the issuer of a financial instrument that is a component of the Index to a corporate event that has already been announced, on the basis of which it based its assessment of the corporate event, may negatively affect the net worth of the Fund's assets, especially if the Fund has treated the event differently from the Reference Index;
- error from following the Reference Index (Tracking error risk) – for example, following the Reference Index by investing in all positions of the index can be expensive and difficult to implement.

**State securities**

Government securities are securities issued by the Ministry of Finance as the representative of the state and they materialize government debt. Holders of government securities can be Bulgarian or foreign individuals and legal entities. Government securities in circulation are individual issues that have their own unique characteristics, such as issue number, issue date, maturity, interest rate. Pursuant to the Government Debt Act, the Minister of Finance issues government securities on the domestic market. The Ministry of Finance, together with the Bulgarian National Bank (BNB), regulate the terms and conditions under which the issuance of dematerialized government securities on the domestic market is carried out. The BNB participates in the organization of the auctions, the sale and servicing of the issued government securities, performing the function of an agent of the government. Trade in government securities is mediated by primary dealers (banks and investment intermediaries), who have the right to acquire government securities directly at the auctions organized by the BNB. Only primary dealers who have received permission for investment mediation with government securities can participate in the auctions. Primary dealers have a leading role in organizing the trading of government securities in the secondary market.

According to their term to maturity (maturity), government securities are:

- short-term (treasury bills) - issued with a maturity of up to one year;
- medium-term - with a repayment term of one to five years inclusive;
- long-term - with a repayment term of more than five years.

Medium and long-term government securities are called treasury bonds. Depending on the type of income that government securities bring, they are:

- interest-bearing - are issued at a price equal to or greater than their nominal value, on which interest is charged according to the interest rate of the issue;
- discount - are issued at a price below the nominal value and the income for the depositor is formed only from the discount, i.e. from the difference between the purchase price and the nominal value paid at maturity;

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- discount-interest-bearing - are issued at a price below the nominal value, and interest is charged on it according to the interest rate of the issue, i.e. the income is formed from the discount from the nominal value and the interest.

Regarding investments in government securities, it can be said that they are:

- with high security - payment of the maturity of the nominal value and interest is guaranteed by the state;
- with high liquidity - government securities issues are in large volumes and there is a developed secondary market for them, where depositors could sell their government securities before the maturity date with almost zero transaction costs.

**Compensatory instruments**

Generally speaking, compensatory instruments are instruments issued by the relevant representatives of the Bulgarian state (departments, regional administrations and land commissions) to compensate the persons or their legal successors whose properties, buildings or agricultural lands have been expropriated or expropriated. Compensatory instruments are registered and (with the exception of compensatory notes from converted home savings deposits) are transferable without restriction. They can be used as a means of payment in privatization transactions, to acquire shares from privatized commercial companies, as well as be used as investment vouchers with all the resulting rights and obligations under the Law on the Transformation and Privatization of State and Municipal Enterprises, including participation in voluntary pension funds. By being listed for trading on the stock exchange, compensatory instruments are also an actively traded instrument with high liquidity. The return on investment in compensatory instruments is highly speculative and investors should note that they are not securities (although traded as such), have a temporary status and their existence is not secured by real assets.

**Leverage**

Leverage in the field of investment services is the use of various methods of raising borrowed capital (margin trading) in order to increase the rate of return. Leverage is a way of investing, in which a position is opened that allows the trading of amounts that many times exceed the own funds (deposited cash) of the investor. Leverage investment instruments can be options, futures, margin trading and other derivative financial instruments. The use of leverage is associated with the assumption of additional risk, because with this type of investment, not only the profit increases, but also the possible loss.

**Margin trading**

Margin trading is a risky form of investing, since with a small amount deposited on the investor's trading account, amounts significantly exceeding the account balance can be controlled / traded. In practice, with the margin deposit, the trader guarantees the ability to bear losses up to a certain amount (the deposit).

**A margin purchase** is a purchase of securities made by an investment intermediary on behalf of its client, where the client uses a money loan from the investment intermediary to pay for the securities. The investment intermediary can provide cash loans to its customers only to make margin purchases. The cash loan is considered secured by the securities reported in the customer's margin account, as well as by the customer's cash reported in his short selling account.

**A short sale** is a sale of securities carried out by an investment intermediary on his own account or on behalf of his client, where at the time of its conclusion the seller does not own the securities and intends to fulfill his obligation to transfer them with borrowed securities.

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**A securities loan** is a transfer of securities by the lender into the ownership of the borrower against an obligation to return securities of the same type, number and issue at a specified future date or on demand.

Lending of securities is allowed on the condition that collateral is provided. The investment intermediary may borrow securities only to fulfill an obligation to transfer securities subject to a short sale made for its own account or for the account of a client, return securities borrowed, lend the securities to another investment firm an intermediary. The investment intermediary may lend only its own securities, as well as securities of institutional investors acting as their agent.

Margin trading carries a high degree of risk. The amount of the initial margin deposit may be small compared to the volume of the transaction due to the "leverage" effect. Relatively small market movements will have a proportionally greater effect on the funds deposited by the investor or on such funds as he shall have to contribute; this can be both to the detriment of the investor and to his benefit. The investor may suffer a total loss of the deposited funds and any additional funds deposited to maintain the open positions on his account. In the event that the market movement is in the opposite direction of the position taken and/or the margin requirements are increased, the investor may be asked to deposit additional funds within a certain period to hold the positions. Failure to comply with this invitation to deposit additional funds within the specified time may result in the closing of the investor's positions, and he will be responsible for any resulting losses or deficit on the account. Maintaining an open position during an adverse movement in the market price of the given asset and waiting for a reversal of the direction of movement can also lead to daily losses as a result of ongoing revaluation of positions and/or replenishment of collateral (margin deposit).

**Repo transaction**

Repo transactions can be of two types:

- A straight repo (buy-sell) is a transaction in which securities are sold to an investor with an arrangement for their repurchase at maturity at a predetermined (fixed) price. This type of transaction provides an additional guarantee (collateral) for the funds provided by the investor, as well as an opportunity for short-term investment restructuring;
- A reverse repo (buy-sell) is a transaction in which securities are purchased from the investor and the price at which the same securities will be sold to the same customer at a future date is fixed. This type of repo transaction represents short-term financing by the buyer against collateral - the securities provided by the investor.

Specific to repo transactions is the credit risk, which is expressed in the possibility that one of the parties to the transactions will not fulfill its obligations to pay the cash, and the other its commitment to the settlement (transfer) of the securities. As a result, it is possible for one party to acquire securities, respectively to become the bearer of all the risks associated with their possession. Risks related to the nature of securities depend on their type (equities, debt securities, others) and generally include the above-described price, liquidity, credit, currency and other risks.

**DESCRIPTION OF GENERAL RISKS**

In addition to the specific risks for each financial instrument mentioned above, there are also general risks that affect each financial instrument and each investment.

**Market risk** - market risk is the risk that the value of the investment will decrease due to movements of market factors - prices of financial instruments, interest rates, exchange rates and others. Market prices of investments may vary due to changes in the economic and market environment, the

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monetary policy of central banks, the business activity of issuers, the demand and supply in the market of the relevant instrument.

**Interest rate risk** – given changes in market interest rates adversely affect the income or value of the instrument. Changes in interest rates can expose holders of financial instruments to the risk of capital loss. The materiality of the risk has separate weights for the respective financial instruments.

**Currency risk** - investments in instruments denominated in a foreign currency may be adversely affected by a decline in the exchange rate of that currency against another. An increase or decrease in exchange rates may cause a loss or gain for the securities in the currency in which they are denominated.

**Absorption risk** - This is the risk that investors in a bond may not be able to find the same investment terms in the market if the existing investment is terminated in the event that the bond issuer repays its obligation before the maturity date.

**Operational risk** - is defined as the risk of direct or indirect losses as a result of inadequate internal control, human act, organization or external event. This risk covers human errors, malicious acts by employees, breakdowns in information systems, problems related to human resources management, company affairs, as well as force majeure circumstances such as accidents, fires, floods and others.

**Liquidity risk** - liquidity risk arises in situations where a party interested in selling an asset cannot do so because there is no other party in the market willing to trade that asset, i.e. there is demand and no supply or vice versa.

**Volatility risk** - this is a risk associated with movements in the price of a financial instrument. Volatility is high if the financial instrument is subject to large movements in a given period of time. Volatility risk is calculated as the difference between the lowest and highest prices of a financial instrument for a given period of time.

**Credit risk** - it can be defined as the probability that the counterparty will not knowingly fulfill or is unable to fulfill its commitment under the concluded contract. Investors should evaluate the quality of issuers of financial instruments, as well as their ability to repay their obligations.

**Order location risk** - this risk is related to the market location of the relevant asset. When the market is not the investor's home, he assumes currency risk.

*Foreign Markets* : Any investment that contains a foreign element is subject to the risks to which that market is subject. These risks may be different from those of the market where the financial instrument is issued or the investor is located.

*Emerging Markets* : Investments in emerging markets carry higher risks than those encountered in developed markets. These risks also exist when a large part of the issuer's business is conducted in these markets. Investments in these markets are often speculative in nature. Investments in emerging markets should be carefully considered and the underlying risks inherent in the markets in question should be assessed.

**Settlement risk** - this is the risk that the settlement in a payment system will not take place due to the inability of a participant in the payment system to fulfill its obligations. This risk is equal to the difference between the price of an asset and the theoretical execution date and the price of the asset on the execution date. This is the difference between the settlement price approved for the financial instrument and the current market price at the time of settlement, when the difference may result in a loss. In some situations, settlement procedures may be affected by the number of transactions and thus prevent their execution. Failure to complete the settlement due to such issues may prevent investors from profitable investment opportunities and result in loss. Settlement risk can arise as both credit and liquidity risk.

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**Custodial risk** - investments in certain markets, and more specifically emerging markets, where the rules and regulations relating to the system of custodial services may be less developed from the point of view of investor protection compared to those markets that have strict custody rules. Assets in these markets entrusted to custodians, where such are needed, may be exposed to risks related to the inability of the custodian to fulfill its obligations. This risk is increased when no investor compensation system exists in the relevant market or, if such a system exists, an investor is not covered by the protection offered by the system.

**Legal risk** - arises from uncertainty as a result of legal actions or uncertainty regarding the enforceability of contracts, laws and regulations, for example legality of the contract, legal capacity of the party to enter into a contract.

**Political risk** - risk that the government will impose new taxes, regulatory or legal obligations or restrictions on financial instruments that an investor already owns. As an example, the government may decide to prohibit the repatriation of assets from the country.

**Tax risk** - manifests itself with insufficient knowledge of the tax legislation regulating the taxation of the income received from trading with the relevant financial instrument, as well as the probability of future changes to the legislation within the investor's investment horizon. Each investor should independently familiarize himself with the relevant tax legislation applicable to the specific financial instrument, the trading market, the payer of the income, the investor himself, etc.

**Other Risks** - When carrying out OTC transactions, it should be borne in mind that it may be difficult or impossible to close an existing position, to determine the value, fair price or to assess the risk assumed.