

## **Best Execution Policy**

SMBC Nikko Securities Inc.

This Best Execution Policy sets forth our policy and other matters to execute transactions on the best terms and conditions for our customers in accordance with the provisions of Article 40-2, paragraph (1) of the Financial Instruments and Exchange Act.

When we accept an order from a customer for any of the securities specified in 1. below, we will endeavor to execute the order on the best trading terms and conditions for the customer in accordance with the following methods and policies.

### **1. Applicable securities**

Stocks, ETFs, REITs, and other securities listed on financial instruments exchanges in Japan, which are "Listed Share Certificates, etc." as defined in Article 16-6, paragraph (1), item (i) (a) of the Order for Enforcement of the Financial Instruments and Exchange Act.

SMBC Nikko Securities does not accept orders for tradable securities, as defined in Article 67-18, item (iv) of the Financial Instruments and Exchange Act, in principle.

### **2. Methods to execute on the best trading terms**

Brokerage orders for listed shares and other equivalent securities received from a customer will be executed using the following methods: If a customer specifies the execution method to be used, including a transaction venue, we will follow such instructions only to the extent that we can accommodate.

- (1) Out of all buy and sell orders for listed shares and other equivalent securities whose primary market is the Tokyo Stock Exchange, orders with opening or closing conditions or brokerage orders received outside the regular trading hours will be executed on the Tokyo Stock Exchange. However, orders received outside of the Tokyo Stock Exchange's order acceptance hours will be executed after the acceptance of trading orders has started.
- (2) Out of all buy and sell orders for listed shares and other equivalent securities whose primary market is the Tokyo Stock Exchange, orders that do not have opening or closing conditions and are received during regular trading hours will be executed by

using the SOR. In that case, if the order quantity is greater than the number of shares at the best quote, the order will be split and placed simultaneously in the trading venues. All PTS brokerages will be traded by IOC. However, if a special quote or continuous quote is displayed for the issue in question, or if an order is received immediately before the close of trading, the entire quantity will be executed on the primary market.

The trading venues for SOR are the Tokyo Stock Exchange and the PTSs listed below. However, the trading venues for the relevant securities do not include PTSs where the securities are not traded.

- J-Market operated by Japannext Co., Ltd. (“Japannext”)
- ODX PTS operated by Osaka Digital Exchange Co., Ltd. (“ODX”)

If the best quote prices are the same, the order of execution priority will be the Tokyo Stock Exchange first and then the PTSs. As a rule, the order of priority for PTSs is determined based on the volume of orders, and is not fixed. For the current order of priority among trading venues eligible for SOR, please refer to our website (<https://www.smbcnikko.co.jp/sairyo/>).

- (3) For listed shares and other equivalent securities for which the Tokyo Stock Exchange is not the primary market, orders will be executed on the financial instruments exchange that is the primary market.
- (4) Orders placed via online trading or telephone trading will not be brokered to the Fukuoka Stock Exchange and the Sapporo Stock Exchange due to system restrictions.

### **3. Reasons to choose these methods**

We believe that the best trading conditions for our customers are determined by comprehensively considering various factors such as cost, speed, and execution probability, in addition to price.

- (1) For the orders specified in 2. (1) above, we cannot compare the best quotes between the Tokyo Stock Exchange, which is the primary market, and other trading venues. Accordingly, we will execute all orders on the Tokyo Stock Exchange, which is considered to have the highest liquidity.

(2) With regard to the orders specified in 2. (2) above, we believe that execution using SOR is likely to produce favorable results for our customers in terms of price improving effects because listed shares and other equivalent securities whose primary market is the Tokyo Stock Exchange are considered to have relatively high liquidity in PTSs. The reason for splitting the order and placing it simultaneously to trading venues and for adopting IOC for PTS brokerages is that we believe using these methods can minimize potential latency arbitrage.

We use the Tokyo Stock Exchange and PTSs as trading venues because we expect that selecting these trading venues should increase the likelihood that orders will be executed at favorable prices while reducing system loads, thereby increasing the opportunity to provide our customers with the best execution results.

As for the relationship with Japannext, one of the firms operating PTSs, not only do we hold a stake in the company, but SBI Holding Inc. is also a major shareholder. Sumitomo Mitsui Financial Group, Inc. (hereinafter, “SMFG”), our parent company, invests in SBI Holdings. SMFG also invests in ODX. As explained above, by increasing the choice of trading venues, it is expected that the possibility of price improvement will increase, and we believe that this will enhance the opportunity to provide our customers with the best execution results. Therefore, we have added them as trading venues, and we treat both of them equally.

In a case where the best quotes are the same, the priority of brokerage is arranged in the order that is considered to have a higher possibility of executing a deal.

(3) For the orders specified in 2.(3) above, since liquidity is considered relatively low for listed shares and other equivalent securities for which the Tokyo Securities Exchange is not the primary market, we believe it is effective to emphasize speed by executing orders only on the primary market where liquidity is the highest.

#### 4. Others

(1) The transactions below will be executed by the following methods:

(i) Trading under a discretionary investment contract or equivalent

There are cases in which the methods specified in 2. are not appropriate. For such transactions, SMBC Nikko Securities will use an execution method selected by SMBC Nikko Securities within the scope specified by the customer or a third party designated by the customer by contract or other arrangement.

- (ii) Trading for which the execution method is specified in the terms of transactions, such as stock cumulative investment plans

There are cases in which the methods specified in 2. are not appropriate. For such transactions, we will use the execution method specified in the transaction contract or other arrangement.

- (iii) Trading of shares less than one trading unit (excluding trading to respond to requests for selling such shares to the issuing company and requests for purchasing additional shares to reach a whole trading unit)

Since the methods specified in 2. cannot be used for these transactions, they will be executed by either the method in which we broker them to financial instruments business operators handling fractional shares or the method in which we directly execute the transaction with the customer.

- (iv) Margin trading

Due to the system limitations, we will execute these orders by brokering them on the primary market.

- (v) Trading of corporate bonds with stock acquisition rights and some other securities\*

The methods specified in 2. cannot be used for these securities. Therefore, we will execute these orders by brokering them on the primary market.

- (2) In the event of a problem with financial instruments exchanges, telecommunications line operators, or our system, SMBC Nikko Securities may execute orders by a method different from the method that would normally be chosen in accordance with this Best Execution Policy.

The obligation of SMBC Nikko Securities under this best execution policy should be to execute orders by comprehensively considering various factors, including cost, speed, and executability, not only price. Therefore, if a trading order is executed under terms that focus only on price and

the result of the transaction is not the best, this alone does not necessarily constitute a breach of the best execution policy.

### **Definition of terms**

- “Primary market\*” refers to the primary market that SMBC Nikko Securities selects from the perspective of liquidity.
- “PTS” stands for "Proprietary Trading System," a private trading system as defined in Article 26-2-2, Paragraph 7 of the Order for Enforcement of the Financial Instruments and Exchange Act, and it refers to a mechanism where securities are traded electronically outside financial instruments exchanges.
- “Trading venues” refer collectively to financial instruments exchanges and alternative execution markets, including PTSs. For trading venues eligible for SOR, please refer to our website (<https://www.smbcnikko.co.jp/sairyo/>).
- “SOR” stands for "Smart Order Routing" and refers to a system that compares quotes on multiple trading venues and controls the routing of trading orders to obtain the best execution price.
- “IOC” stands for "Immediate Or Cancel," an order method that automatically cancels any part of the order that cannot be executed immediately.
- “Latency arbitrage” refers to an investment strategy or action to take advantage of the difference in arrival times of orders sent to multiple trading venues by SOR to obtain a quote and execution information at the trading venue that arrives first using high-speed communication facilities, and using this information to trade ahead at other trading venues in an attempt to earn a profit.

\*For inquiries about applicable issues and the primary market selected for each issue, please contact either the sales office where you have an account, or the Nikko Contact Center.

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*This policy is made in Japanese and translated into English. The Japanese text is the original and the English text is for reference purposes.*