

Version 2.3

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MIFID CATEGORIZATION POLICY

I. Introduction

This policy sets out the process (hereafter referred to as ‘the Policy’) by which Pure Capital S.A. (hereafter referred to as ‘the Company’) categorizes its clients, in accordance with the (revised) Markets in Financial Instruments Directive (“*MiFID*”).

To protect investors, MiFID requires investment firms to be authorized and to comply with various regulatory requirements, including those concerning how business is conducted. MiFID recognizes that investors have different levels of knowledge, skill and expertise and therefore the regulatory requirements should reflect this. MiFID does this through the use of categories of client. MiFID adopts two main categories of client: retail and professional. There is a separate and distinct third category for a limited range of businesses: eligible counterparty.

MiFID attaches different regulatory protections to each of these categories, with the result that those falling within the retail category (*‘Clients de Détail’*) – the less experienced, knowledgeable and sophisticated investors – will be afforded a higher level of protection than that afforded to investors in the professional or eligible counterparty category.

II. Legal background

The Company has aligned its classification of its clients under discretionary management and investment advisory in accordance with:

- The EU Market in Financial Instrument Directive (MiFID I and II) requires that investment firms establish an Order Execution Policy (“Execution Policy”) and take all reasonable steps to obtain the best possible result when executing orders on behalf of its Clients.
- Delegated Regulation of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards to organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (hereafter referred to as the "*MiFID II*").
- The CSSF Circular 03/307
- The ‘Règlement Grand-Ducal’ of July 13th, 2007 (hereafter referred to as ‘*the RGD*’)
- The Law of April 5th, 1993 on the financial sector, as modified (hereafter referred to as ‘*LFS*’)

The client categorization under MiFID is not an area that has been extended to investment funds, which means that it does not apply in full scope to the Company when conducting its AIF or UCITS business.

The client categories under MiFID II (Annex II) will remain broadly the same as under MiFID I, except some changes related to:

- the classification of local public authorities and municipalities ;
- Clients wishing to be treated as eligible counterparties (and similarly eligible counterparties wishing to be reclassified as professional or retail clients) will need to follow a specific procedure. Clients electing to be reclassified must provide written confirmation that they are requesting the new status and specify if this is in general or in relation to a specific trade, service or product. For clients electing to be treated as eligible counterparties, they will need to confirm that they have been warned of the protections they are losing;

- Elective professional clients (for example a retail client who has opted up to professional client status) will no longer be able to “opt up another step” to eligible counterparty status. Other types of professional clients can still opt up, but in order to do so must comply with additional formalities. These clients include authorized entities and large undertakings. Therefore, small undertakings, which previously had eligible counterparty status, may need to be reclassified.

III. Client classification

A client is anyone to whom the firm provides a MiFID service and falls within one of the three categories below:

- **Eligible counterparties** include: MiFID investment firms, credit institutions, insurance companies, UCITS and their management companies, other regulated financial institutions and in certain cases, other undertakings. They are considered to be the most sophisticated investors or capital market participants. Belong also to this category, those who are ‘opted up’ on the basis of their experience and expertise. The Company may only treat a client as an eligible counterparty in relation to eligible counterparty business, e.g. dealing/arranging activities.
- **Professional Clients** are considered to be more experienced, knowledgeable and sophisticated as well as able to assess their own risk and make their own investment decisions so they are afforded less regulatory protection and include credit institutions, investment firms and collective investment schemes as examples, as well as “opted up” retail clients.
- **Retail Clients** are all other clients and are afforded the most regulatory protection

For any new business relationship with a Client under a discretionary management or investment advisory mandate (hereafter referred to as ‘*the Mandates*’), the Company has provided in the Mandates that all Clients are classified as Retail (Non-Professional) clients and are afforded with the overall protection measures. The Mandates explicitly indicates in its article 4 that in case a Client opts for another classification, he formally accepts to benefit from a lower degree of protection under the MiFID legislation. A change of classification will always be communicated to the Client.

IV. Professional clients

A Professional Client is a client who possesses the experience, knowledge and expertise to make its own investment decisions and properly assess the risks that it incurs. In order to be considered a Professional Client, the Client must comply with the following criteria:

A. Categories of Client who are considered to be professionals ‘per se’:

For the purposes of this Law, the following shall be regarded as professionals in relation to all investment services and activities and financial instruments:

- Entities which are required to be authorized or regulated to operate in the financial markets. The list below should be understood as including all authorized entities carrying out the characteristic activities of the entities mentioned – entities authorized by a member state under a European Community Directive, entities authorized or regulated by a member state without reference to such Directive, and entities authorized or regulated by a non-Member State:

- (a) Credit institutions;
 - (b) Investment Firms;
 - (c) Other authorized or regulated financial institutions;
 - (d) Insurance undertakings;
 - (e) Collective investment schemes and management companies of such schemes;
 - (f) Pension funds and management companies of such funds;
 - (g) Commodity and commodity derivatives dealers;
 - (h) Locals;
 - (i) Other institutional investors.
- Large undertakings meeting two of the following size requirements, on a proportional basis:
 - o balance sheet total at least: 20'000'000 Euro;
 - o net turnover at least: 40'000'000 Euro;
 - o own funds at least: 2'000'000 Euro.
 - National and regional governments, public bodies that manage public debt, central banks, international and supranational institutions such as the World Bank, the International Monetary Fund, the European Central Bank, the European Investment Bank and other similar international organizations.
 - Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitization of assets or other financial transactions. The entities mentioned above are considered to be professionals.

Any Clients not falling within this list are, by default, Retail Clients.

It is the responsibility of the Client, considered to be a Professional Client, to ask for a higher level of protection where it deems it is unable to properly assess or manage the risks involved.

This higher level of protection will be provided when a Client who is considered to be a professional enters into a written agreement with the Company to the effect that it shall not be treated as a professional for the purposes of the applicable conduct of the business regime. Such an agreement should specify whether this applies to one or more particular services or transactions, or to one or more types of product or transaction.

B. Clients who may be treated as professionals 'on request':

1. Identification criteria

Clients other than those mentioned in Part A above, including public sector bodies and private individual investors, may also be allowed to waive some of the protections afforded by the conduct of business rules.

The Company should therefore be allowed to treat any of the above Clients as professionals provided the relevant criteria and procedures mentioned below are fulfilled. These Clients should not, however, be presumed to possess market knowledge and experience comparable to that of the categories listed

in Part A above. A client who does not fall under any of the categories in Section A above may be also be treated as a professional client upon request. The Company will forward a questionnaire in order to establish whether the client possesses sufficient experience, knowledge and expertise to enable him/her to make his/her own investment decisions and properly assess the risks that such investment incurs. In the course of this assessment two of the following criteria, as a minimum, should be satisfied:

- the Client has carried out transactions, of significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters;
- the size of the Client's financial instrument portfolio, defined as including cash deposits and financial instruments exceeds 500'000 Euro;
- the Client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.

2. Process

The Clients defined above may waive the benefit of the detailed rules of conduct only where the following procedure is followed:

- they must state in writing to the Company that they wish to be treated as professional clients, either generally or in respect of a particular investment service or transaction, or type of transaction or product;
- the Company will give them a clear written warning of the protections and investor compensation rights they may lose;
- they must state in writing, in a separate document from the contract, that they are aware of the consequences of losing such protections.

Before deciding to accept any request for a waiver, the Company must take all reasonable steps to ensure that the Client requesting to be treated as a Professional Client meets the relevant requirements stated in paragraph (1) of Part B above.

Professional Clients are responsible for keeping the Company informed about any change, which could affect their current categorization. Should the Company become aware however that the Client no longer fulfils the initial conditions, which made him eligible for a professional treatment, the Company must take appropriate action.

V. Eligible counterparties

Eligible counterparties are any of the following entities to which a credit institution or an investment firm provides the services of reception and transmission of orders on behalf of clients and/or execution of such orders and/or dealing on own account:

1. Investment Firms or other investment firms;
2. Credit institutions;
3. Insurance companies;
4. UCITS and UCITS management companies;
5. Pension funds and their management companies;

6. Other financial institutions authorized by a Member State or regulated under Community legislation or the national law of a Member State;
7. Undertakings exempted from the application of the Law in accordance with the MIFID
8. National governments and their corresponding offices, including public bodies that deal with public debt;
9. Central banks and supranational institutions.

When the Company deals with Eligible Counterparties, it is not obliged to follow some business conduct rules, best execution policies or order transmission rules in line with the services offered by the Company. All other requirements under MiFID remain applicable.

In line with article 59(1) of the RGD, professional clients 'per se' that fall within the categories of clients 1,2 and 3 of Annex III. Section A of the LFS are to be considered as Eligible Counterparty. The Company is entitled to consider a Professional Client 'on request' as an Eligible Counterparty under the conditions of Annex III section B of the LFS if it is a company; a physical person as well as any other person that is not a company can under no circumstances be classified as an Eligible Counterparty.

However a company may not be considered as an Eligible Counterparty besides for services or transactions for which it is also treated as a Professional Client. A Professional Client 'on request' needs to provide an explicit confirmation to be treated as an Eligible Counterparty and renounce from a part of the afforded protection. This confirmation can be general or be for an individual transaction. The Company may refuse the classification as Eligible Counterparty for a Professional Client 'on request' either generally or for a certain type of transaction.

Clients that are classified as Eligible Counterparty may request the protection provided for under articles 37-3, 37-5 and 37-6 of the LFS; in a general way or for each individual transaction. This options is very important for Eligible Counterparties which are institutions acting on behalf of clients and who need consequently to be released from the obligation to act in the best interest of their clients under article 37-3(1) of the LFS.

In a nutshell following protection mechanism applies depending on the classification of Clients:

Categories	Best Execution	Prompt and fair client order handling	Management and disclosure of conflicts of interest
Retail Clients	Yes	Yes	Yes
Professional Clients 'per se'	Yes	Yes	Yes
Professional Clients 'on request'	Yes	Yes	Yes
Eligible Counterparties	No	No	Yes

VI. Request for Different Classification

The Company will, as a standard, classify its Clients as Retail Clients.

However, in accordance with the Company's General Terms and Conditions under article 1, the Client can request a change of classification to the Company.

The Retail Client has the right to request the different classification of Professional Client but he/she will be afforded a lower level of protection. The Company is not obliged to deal with him/her on this basis.

In such a case, the Company will inform the Client through a durable medium that as a Professional Client, the latter is granted fewer protections than if the Client were categorized as a Retail Client.

In particular:

- The Client is likely to be provided with less information with regard to the Company, its services and any investments (for example on costs, commissions, fees and charges);
- Where the Company assesses the appropriateness of a product or service, the Company can assume that the Client has sufficient knowledge and experience to understand the risks involved;
- If the Company is required to assess the suitability of a personal recommendation made to the Client, the Company can assume that the Client has sufficient experience and knowledge to understand the risks involved, and can sometimes assume that the Client is able financially to bear any investment risks consistent with its investment objectives;
- when fulfilling the Company's best execution requirements, it is not required to prioritize the overall costs of the transaction as being the most important factor in achieving best execution for the Client
- the Company does not need to inform the Client of material difficulties relevant to the proper carrying out of its order(s) promptly;
- should the Company provide the Client with periodic statements, the Company is not required to provide the Client as frequently as for Retail Clients; and
- the Client is likely to have fewer rights to compensation of loss in the event of bankruptcy of the Company under any scheme under local law for the payment of compensation

The Professional Client has the right to request the different classification of Retail Client in order to obtain a higher level of protection. The Company is not obliged to deal with the Client on this basis.

The Eligible Counterparty has the right to request a different classification of either as a Professional Client or Retail Client in order to obtain a higher level of protection. The Company is not obliged to deal with the Client on this basis.

The Board of Directors of the Company