AS Avaron Asset Management’s Remuneration Policy

General

The remuneration policy (hereinafter: “**Policy**”) outlines the remuneration framework applicable to AS Avaron Asset Management (hereinafter: “**Avaron**” or the “**Company**”) employees (hereinafter: **“Employees”**). The purpose of this Policy is to set forth the remuneration principles of the Company to meet the following principles:

- To be consistent with and promote sound and effective risk management which does not encourage risk-taking that exceeds the level of tolerated risk as set forth in the risk profile of a UCITS fund;
- To be in line with the business strategy, objectives, values and long-term interests of the Company;
- To incorporate measures to avoid conflicts of interest;
- To implement all necessary laws and regulations, especially Estonian Investment Funds’ Act and its supplementing acts, UCITS Directive and ESMA regulations;
- To attract, develop and retain high-performing and motivated employees in a competitive international market.

The Supervisory Board of Avaron (hereinafter: the **“Supervisory Board”**) is responsible for adopting and periodically reviewing the general principles of the Policy and shall be responsible for overseeing the Policy’s implementation at least annually. The Supervisory Board shall ensure that the Company’s remuneration policies and practices are appropriately implemented and aligned with the Company’s overall corporate governance framework, risk profile, risk appetite and strategy. The remuneration for Employees shall be approved by the independent members of the Supervisory Board.

The Supervisory Board shall guarantee, that staff engaged in control functions are independent from the business units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their control functions, independent of the performance of the business areas they control.

The internal audit of the Company shall carry out an independent review of the design, implementation and effects of the Policy regarding compliance with applicable regulation.

On the basis of the recommendation of the Management Board of Avaron (hereinafter: **“Management Board”**), compliance function and internal audit, the Supervisory Board shall review, consider and where appropriate, approve the incentive schemes for the coming year. The aggregate variable remuneration pool which is made up of bonus accrued under said schemes is approved once a year by the Supervisory Board based on the recommendation of the Management Board.

Taking into account the Company’s size, internal organisation, nature, scope and complexity, no remuneration committee is being established.

The Policy shall apply to remuneration earned for the fiscal year starting on 1 January 2017.

Remuneration components

The total remuneration components must be appropriately balanced, so that the fixed component represents a sufficiently high proportion of the total remuneration, allowing the possibility to pay no variable remuneration component, to avoid inducing excessive risk taking. The components of the total remuneration are:

- basic **fixed remuneration**, which reflects relevant professional experience and organisational responsibility as set out in the employee's job description as part of the terms of employment; and
- **variable remuneration** (performance based annual bonus) which reflects a sustainable and risk adjusted performance as well as performance in excess of that required to fulfil the employee's job description as part of the terms of employment as follows:
  - Performance of the individual employee,
  - Performance of the business unit concerned,
  - Overall results of the Company.

Up until Avaron UCITS funds represent more than 50% of the Company total assets under management, performance based remuneration is paid in cash. Provided the 50% threshold is exceeded, 50% of the total variable remuneration shall be payable in cash and 50% in units of UCITS funds. The same rules apply for payout, irrespective the type of variable remuneration. No Company-based pension benefits are paid to the Employees. Employees are required to undertake not to use personal hedging strategies or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

The total variable remuneration may not limit the ability of the Company to strengthen its capital base.

Additional requirements for Employee variable remuneration

The appropriate combination of quantitative and qualitative criteria shall be used to measure performance and risk. The criteria shall be aligned with the Company's objectives, be realistic and appropriate to measure the individual and overall performance. The quantitative indicators shall cover period long enough to properly capture relevant risk and may include for example Company financial results, Avaron funds' and managed accounts' absolute and relative returns and alpha generated and assets raised and managed by the Company. The qualitative measures may include achievement of the Company's strategic targets, Avaron funds' and managed accounts' investor satisfaction, adherence to risk management policy, compliance with internal and external rules, motivation and cooperation with business units and controlled functions.

Negative non-financial performance such as unethical or non-compliant behaviour, including non-compliance to Avaron internal rules, laws and regulations, and industry practice, shall override good financial performance and diminish Employee variable remuneration.

No Employee shall be entitled to expect variable remuneration. Any payment of the variable remuneration shall be subject to ex-ante and ex-post risk adjustments.

The payment of variable remuneration is divided into the following phases, each subject to appropriate risk alignment measures: (i) accrual period; (ii) awarding, and (iii) vesting/pay-out. The Company applies appropriate accrual periods, considering the risks entailed to the relevant unit or business activity. The standard accrual period is one year.

Deciding on bonus pools and awarding variable remuneration is subject to and forms part of the Company's general risk management process (incl. stress-testing scenarios) to ensure that payment of the variable remuneration does not have any negative impact on the business continuity of the Company.

At the annual performance and appraisal interview, an Employee, his/her immediate supervisor and a Company Partner evaluate and document performance over the past year and set new goals. Decisions on adjustment, if any, of an Employee's fixed salary or variable remuneration (annual bonus) are made on the basis of this appraisal.

The assessment of the performance is set in a three-year framework, to ensure, that the assessment process is based on longer-term performance taking into account the business cycle of the Company and its business risks. Therefore, only 40% of the variable remuneration (annual bonus) shall be payable upon awarding, and 60% shall be deferred and payable (vesting) based on a pro rata principle in a three-year period, whereas the minimum time between awarding and payment (vesting) of the first part of the deferred payment, and each payment thereafter is one year. 40% of the awarded amount shall vest and be payable next calendar year in June, and thereafter 20% of the amount each year during June. To be clear, if an Employee receives a bonus for Year X, then 40% is paid out in June Year X+1, 20% in June Year X+2, 20% in June Year X+3 and 20% in June Year X+4. The Supervisory Board of the Company may apply a longer deferral period, considering relevant circumstances.

For payment (vesting) of the deferred part, reassessment of the performance and, if necessary, a risk adjustment shall be undertaken in order to align variable remuneration to risks and errors in the performance and risk assessments since the award phase. Such analysis is carried out by the Management Board. In case of changes, a new proposal is made by the Management Board to the Supervisory Board.

An Employee becomes entitled to variable remuneration only upon the date of vesting/payment (each year in June), as applicable. The variable remuneration, including the deferred portion, is paid only if at the time of the payment all of the following are true:

- the person remains an Employee of the Company,
- the person has not had more than 60 days off during the calendar year prior to the date of the payment and not more than 30 days off during the year of the payment,
- it is sustainable according to the financial situation of the Company as a whole,
- it is justified on the basis of the performance of the Company, the business unit and the individual concerned.

The Management Board has the right to make exceptions in favour of any Employee on case by case basis and propose such suggestions to the Supervisory Board for approval, taking into account the regulatory requirements.

In case of a longer leave of an Employee (e.g. military leave, maternity leave, un-paid leave, sick leave), the pay-out of the deferred variable remuneration shall be postponed until the next June the Employee returns from leave.

The total variable remuneration shall generally be considerably decreased, where subdued or negative financial performance of the Company occurs, taking into account both current remuneration and reductions in pay-outs of amounts previously earned, including through malus or clawback arrangements. Up to 100% of the total variable remuneration shall be subject to malus or clawback arrangements in a three-year timeframe from the first pay out of the deferred remuneration.

Subject to and in accordance with the applicable regulatory requirements, the Management Board is entitled to reduce or re-claim (clawback) the variable remuneration (whether in full or in part), where:

- there is an evidence of misbehaviour or serious error by an Employee (e.g. fraud, breach of code of conduct, if any, and other internal rules, especially concerning risks);
- the Company in general suffers a significant downturn in its financial performance;
- the Company in general suffers a significant failure of risk management;
- there are significant (negative) changes in the Company's overall financial situation;
- the awarding or payment of variable remuneration has been based on incorrect or misleading information;
- the awarding or payment (vesting) of variable remuneration is not in accordance with the legal and regulatory requirements applicable to the Company.

Any severance payment relating to the termination of the employment contract shall be subject to the general risk alignment requirements of these procedures, and shall not reward a failure. The Company shall be able to explain to competent authorities the criteria used to determine the amount of severance pay. Upon termination of the employment contract with an Employee (independent of the grounds), an Employee shall only retain rights in relation to variable remuneration that has vested (has been paid out) at such time, in any case subject to applicable ex-post risk adjustment and clawback requirements. Without prejudice to the above, the Company and an Employee may agree on additional "good leaver" and "bad leaver" provisions in relevant agreements such as (but not limited to) option agreements, share acquisition and shareholders' agreements.

Disclosure

The Policy may be updated from time to time. The most recent Policy is made public at the website of the Company www.avaron.com.

The paper version of the Policy can be obtained at the registered office of the Company.

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Approved by:	Supervisory Board of Avaron as of 16 January 2017