

Remuneration Policy

1. General

The remuneration policy (hereinafter “**Policy**”) outlines the remuneration framework applicable to AS Avaron Asset Management (hereinafter “**Avaron**” or “**Company**”) employees, including those performing management and control functions (hereinafter “**employees**”). The purpose of this Policy is to set forth the remuneration principles of the Company to meet the following principles:

- To be in line with the business strategy, objectives, values and long-term interests of the Company, including commitment to sustainability and responsible investing;
- 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 legislation and fund documents;
- To incorporate measures to avoid conflicts of interest;
- To establish prudent and gender neutral remuneration principles;
- To attract, develop and retain high-performing and motivated employees in a competitive international market.

2. Approval and Review

2.1. The Senior Partners of Avaron (hereinafter “**Partners**”) are responsible for adopting the principles of the Policy. The Senior Partners shall ensure that the Company’s remuneration policies and practices are aligned with the Company’s overall corporate governance framework, risk profile, risk appetite and strategy.

2.2. The Partners shall approve the incentive schemes for the staff engaged in management and control functions (hereinafter “**Managers**”). The Partners guarantee that Managers 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 functions, independent of the performance of the business areas they control.

2.3. The Management Board of Avaron (hereinafter “**Management Board**”) is responsible for periodically reviewing the Policy and shall be responsible for overseeing the Policy’s implementation, considering the checks and recommendations made by the compliance function and internal audit as regulated below. If the Management Board sees a need for amendments in the Policy, it makes such suggestions to the Partners.

2.4. The incentive schemes of employees other than Managers are decided by the Management Board.

2.5. Chief Compliance Officer shall monitor the implementation of the principles of remuneration and assess how the Policy affects Company's compliance with laws, regulations, internal policies and risk culture at least once a year.

2.6. The internal audit of the Company shall carry out a review of the implementation of the Policy in respect of the remuneration of the Managers and the design of the Policy and its impacts on the risk profile of the Company.

3. Remuneration Components

- 3.1. 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:
 - 3.1.1. **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
 - 3.1.2. **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.
- 3.2. Depending on the organisational responsibility, the remuneration of an employee may only consist of a fixed remuneration.
- 3.3. 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 pay-out, 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.
- 3.4. The total variable remuneration may not limit the ability of the Company to strengthen its capital base.

4. Requirements for Remuneration and the Assessment Process

- 4.1. 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 indicators to be taken into account may vary depending on the position and division the employee works in Avaron.
 - 4.1.1. The quantitative indicators shall cover period long enough to properly capture relevant risk and may include for example Company's financial results, Avaron funds' and managed accounts' absolute and relative returns and alpha generated and assets raised and managed by the Company.
 - 4.1.2. The qualitative measures may include achievement of the Company's strategic targets, Avaron funds' and managed accounts' investor satisfaction, adherence to risk management policy, incorporation of responsible investment principles, compliance with internal and external rules, motivation and cooperation with business units and controlled functions.
- 4.2. Negative non-financial performance such as unethical or non-compliant behaviour, including non-compliance to Avaron internal rules, laws and regulations, excessive assumption of risks related to sustainability and industry practice, shall override good financial performance and diminish employee variable remuneration.

- 4.3. 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.
- 4.4. 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.
- 4.5. 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) performed by Partners to ensure that payment of the variable remuneration does not have any negative impact on the business continuity of the Company.
- 4.6. At the annual performance and appraisal interview, an employee, his/her immediate supervisor and a 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.
- 4.7. 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 60% of the variable remuneration (annual bonus) shall be payable upon awarding, and 40% shall be deferred and payable (vesting) 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. 20% of the awarded amount shall vest and be payable next calendar year in June, and thereafter 10% of the amount each year during June. To be clear, if an employee receives a bonus for Year X, then 60% is paid out in June Year X+1, 20% in June Year X+2, 10% in June Year X+3 and 10% in June Year X+4. Partners may apply a longer deferral period, considering relevant circumstances.
- 4.8. 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.
- 4.9. **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 (earned vacation excluded), unless justified by requirements of other internal rules or legislation,
 - 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.
- 4.10. When justified and reasonable, exceptions from general remuneration principles are allowed. The Management Board has the right to make exceptions in favour of an employee on case by case basis, taking into account the regulatory requirements and carefully considering the effects of such exception not to involve discriminatory aspects and avoid conflicts of interests.
- 4.11. 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.

- 4.12. 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.
- 4.13. Subject to and in accordance with 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.
- 4.14. 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.