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## Remuneration Policy

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<b>Approved by</b>	<b>Board of Directors</b>
<b>Prepared by</b>	<b>Claire Camilleri Gauci Compliance Officer</b>
<b>Date of Next Review</b>	<b>15 May 2018</b>
<b>Date of Approval</b>	<b>15 May 2017</b>

Auriga Asset Management Limited – Reg. Co. N. 60085

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***Purpose and rationale***

The aim of this Remuneration Policy is to ensure that Auriga Asset Management Ltd. (the “Manager”) has risk-focused remuneration policies and practices that are consistent with and promote sound and effective risk management and do not encourage risk-taking that is inconsistent with risk profiles, fund rules, offering documents, or instruments of incorporation of the UCITS Funds that it manages (“UCITS”). By aligning its Remuneration Policy with effective risk management, it is less likely that the Manager’s employees will have incentives to act in a manner that is inconsistent with the risk-tolerance of the UCITS and contrary to interests of their investors.

This Remuneration Policy has been adopted in compliance with SLCs 3.52 and 3.60 of the Malta Financial Services Authority’s (“MFSA”) Investment Services Rules for Investment Services Providers – Part BIII: Standard Licence Conditions applicable to Investment Services Licence Holders which qualify as UCITS Management Companies (the “UCITS Rules”) and Directive 2014/91/EU on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS). Moreover, the principal concern is with the risks created by the way remuneration arrangements are structured, not with the absolute amount of remuneration, which is generally a matter for the Manager’s Board of Directors (the “Board”).

**APPLICATION**

***Identified Staff***

The specific requirements of this Remuneration Policy apply only in relation to certain categories of the Manager’s employees, namely: senior management, risk-takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk-takers, whose professional activities have a material impact on the Manager’s risk profile (the “Identified Staff”).

The following is a current list, as of the date of this Remuneration Policy, of the Identified Staff of the Manager, as determined by the Board:

Category	Identified Staff
Members of Governing Body	Members of the Board of Directors
Control Functions	Risk Manager Compliance Officer
Other Risk-Takers	Members of the Investment Committee Portfolio Manager

***Proportionality***

As with other aspects of the Manager’s systems and controls, its remuneration policies, procedures and practices are required to be comprehensive and proportionate in view of the size, internal organisation and the nature, scope and complexity of its activities (the “Proportionality Principle”).

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In accordance with the Proportionality Principle, the Manager has disapplied (i) all of the requirements on variable remuneration in instruments, retention, deferral, and ex post incorporation of risk for variable remuneration and (ii) the requirement to establish a remuneration committee. The role and functions of the remuneration committee, however, will generally be retained, where appropriate and/or applicable (in keeping with the Proportionality Principle) by the Board.

Having performed an assessment of each of the disapplied requirements, the Manager has determined that such disapplication is reconcilable with the risk-profile, risk-appetite and strategy of the Manager and the UCITS' based on the following facts:

- The Manager is not listed;
- The legal, organisational, and internal governance structures of the Manager are not complex;
- The Manager has less than 10 Employees (including all members of the Board);
- The Manager has less than EUR1.25billion of Assets under Management.

### ***Record Keeping***

In line with the record-keeping requirements in the UCITS Rules, the Manager should ensure that its remuneration policies, practices and procedures are clear and well-documented. In particular, proper documentation should be kept on the procedures to determine remuneration, including on the decision-making process, the determination and selection of Identified Staff and the measures used to avoid conflicts of interest and risk-adjustment mechanisms used.

## **TRANSPARENCY**

### ***External Disclosure***

The Manager shall, on an annual basis, publish certain information on its remuneration policies and practices. This information will be disclosed in the Manager's annual report, through a separate remuneration policy statement, or in any other form that the Manager deems appropriate.

### ***Internal Disclosure***

This Remuneration Policy shall be distributed to all Identified Staff. Identified Staff should be informed in advance of other criteria that will be used to determine their remuneration that are not included in this Remuneration Policy except for any confidential quantitative considerations. The performance assessment process and the importance of non-financial assessment factors in the process should be clearly explained to relevant employees.

## **REMUNERATION PRINCIPLES & MANAGER POLICIES**

### ***Principles***

- The remuneration policy must be consistent with and promotes sound and effective risk management and does not encourage risk-taking that is inconsistent with the risk profiles, fund rules, offering documents, or instruments of incorporation of the UCITS.
- The remuneration policy must be in line with the business strategy, objectives, values and interests of the Manager and the UCITS, including measures to avoid conflicts of interest.

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- The Board, in its supervisory function, must adopt and periodically review the general principles of the remuneration policy and is responsible for its implementation; provided that for so long as a person on the Board is involved in the portfolio management function, the relevant individual shall not be involved in the design or implementation of this Remuneration Policy.
- The implementation of the remuneration policy must be, at least annually, subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the Board.

#### ***Policies & Procedures***

- Following consultation with the Risk Manager and the Compliance Officer (the “**Control Functions**”), Mr Roberto Pavesi (the “**Remuneration Official**”) has prepared and implemented this Remuneration Policy in accordance with the applicable provisions. In doing so, the Remuneration Official and the Control Functions have determined that the Remuneration Policy is in line with the risk-profiles, long-term business strategy, objectives, values and interests of both the Manager and the UCITS and does not encourage excessive risk-taking inconsistent with the foregoing considerations.
- Moreover, the provisions of this Remuneration Policy, together with the specific corporate governance structure of the Manager (including the clear distinction between operating and control functions as well as the skills and independence requirements of the members of each particular function or committee), have been designed in a manner that ensures the avoidance of, insofar as is practically possible, all potential conflicts of interest between the Identified Staff and the interests of the UCITS and their investors.
- The Remuneration Official is responsible for ensuring that this Remuneration Policy complies with the applicable provisions and where appropriate should take into account all relevant guidance issued. In this regard, the Remuneration Official will periodically review the general principles of this Remuneration Policy to ensure that they remain up-to-date and in compliance with the Manager’s remuneration obligations under applicable law. In doing so, the Remuneration Official shall consult the Control Functions and in particular, shall consider the findings of the annual review of this Remuneration Policy conducted by the Control Functions (as described below).
- The Control Functions shall, in consultation with the Remuneration Official, be responsible for initiating and facilitating an annual review of the Remuneration Policy and its implementation, which review shall, in addition to a general assessment for compliance with all applicable law and guidance, be carried out in light of legal and business developments as well as the Manager’s experiences in its implementation.
- The results of the annual review and any recommendations will be presented to the Remuneration Official by the Control Functions. The Remuneration Official shall promptly evaluate the results of the review, address any recommendations, and make any changes to the Remuneration Policy that he deems appropriate.
- All changes or material exceptions to the Remuneration Policy are to be approved by the Remuneration Official, whether in relation to the annual independent review or otherwise.
- Notwithstanding the foregoing, the Control Functions may determine, in line with the Proportionality Principle, to perform a full independent review less frequently than annually, provided that the Control Functions shall at least certify on an annual basis, following a brief internal assessment, that there has been no material change to the applicable law or guidance, the risk-profiles of the UCITS, the Manager’s corporate governance structure,

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and generally all other relevant circumstances affecting the Remuneration Policy that might have changed since the last independent review.

## CONTROL FUNCTIONS

### *Principles*

- Staff engaged in control functions must be compensated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.
- The remuneration of the senior officers in risk management and compliance functions must be directly overseen by the governing body in its supervisory function.

### *Policies & Procedures*

- The remuneration of the Control Functions is determined by the Remuneration Official in his sole discretion.
- The Control Functions shall provide appropriate input in setting the individual remuneration for other identified staff, particularly regarding the behaviour of the individuals concerned and the riskiness of the functions they perform. However, the Remuneration Official shall not involve or consult the Control Functions in discussions or decisions relating to the remuneration of the latter.
- In accordance with the Proportionality Principle, the Board (as the governing body and supervisory function of the Manager), shall determine its own remuneration although it shall take into consideration any recommendations made by the Control Functions and shall be able to substantiate any decision not to follow such recommendations. Any persons sitting on the Board and holding a portfolio management may take part in meetings which discuss, but shall not vote on any decisions to be taken regarding, the setting and implementation of the remuneration of Identified Staff.
- The Remuneration Official retains the right to award discretionary bonuses to the Control Functions, provided that this variable component of their remuneration shall be determined primarily by the attainment of their function-specific objectives, with any performance appraisal to be undertaken solely by the Remuneration Official. See also '*Remuneration Structure – Performance-Related Remuneration*' below.

## REMUNERATION STRUCTURE – PERFORMANCE-RELATED REMUNERATION

### *Principles*

- The total amount of performance-related remuneration must be based on a combination of the assessment of the performance of the (i) individual; (ii) business unit or UCITS concerned; and (iii) the overall results of the Manager. When assessing individual performance, financial as well as non-financial criteria are to be taken into account.
- The assessment of performance must be set in a multi-year framework appropriate to the life-cycle of the UCITS in order to ensure that the assessment process is based on longer-term performance.

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- The measurement of performance used to calculate variable remuneration components or pools of variable remuneration components includes a comprehensive adjustment mechanism to integrate all types of current and future risks.
- Fixed and variable components of total remuneration must be appropriately balanced and the fixed component must represent a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components including the possibility to pay no variable remuneration component.
- Variable remuneration must not be paid through vehicles or other methods.
- Guaranteed variable remuneration can only be awarded in exceptional circumstances and only in the context of hiring new Identified Staff and is limited to the first year of service.

#### ***Policies & Procedures***

- No variable remuneration shall be paid to Identified Staff unless it is determined to be justified by the Remuneration Official following a performance assessment based on quantitative as well as qualitative (non-financial) criteria. In conducting its performance assessments, the Remuneration Official shall seek the appropriate input of the Control Functions.
- The following are the key performance assessment criteria on which the variable remuneration of Identified Staff shall be based, although the Remuneration Official reserves the right to take into account additional criteria on a case-by-case basis:
  - (i) individual performance assessed on the attainment of function-specific objectives (depending on their role within the Manager), including risk-management performance (particularly with regard to the taking of risk-related decisions and the exercise of their functions in manner consistent with Manager's Risk Management Policy as well as the risk-profiles and long-term interests of the UCITS) and general compliance with regulatory requirements;
  - (ii) aggregate performance of the UCITS; and
  - (iii) attainment of the investment objectives of the UCITS and the overall objectives of the Manager.

While each of the foregoing criteria shall be considered in performance assessments, variable remuneration shall be based primarily on the attainment of function-specific objectives.

- Poor performance as assessed by non-financial metrics such as poor risk management or other behaviours contrary to the Manager's values will generally override metrics of financial performance. In order to incentivise Identified Staff to manage risk appropriately, variable remuneration will be reduced when there (i) is reasonable evidence of employee misbehaviour or material error or (ii) has been a material risk management failure by an individual member or group of Identified Staff.
- The Manager must also ensure that the allocation of variable remuneration takes into account all types of current and future risks. The maximum annual variable remuneration that may collectively be paid to Identified Staff shall be the Manager's profit for the preceding year less a specified percentage of the same to be kept in

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reserve (the “Variable Remuneration Pool”). The reserve shall be established in order to strengthen the Manager’s capital base, taking into consideration the various risks to which the Manager and its UCITS are exposed (as outlined in greater detail in the Manager’s Risk Management Policy) and other potential adverse developments that may impact the Manager’s financial stability. The Board shall determine and document, following consultation with the Risk Manager, the percentage of profit to be kept in reserve on an annual basis, including the particular reasons for keeping such reserve.

- The total amount that may be disbursed in variable remuneration awards from the Variable Remuneration Pool shall be determined by the Remuneration Official in his sole discretion, based on his assessment of each individual member of the Identified Staff and any other considerations that he may deem relevant. For example, the Remuneration Official may determine to disburse the entire Variable Remuneration Pool or none of it. Similarly, the Remuneration Official is entitled to award no variable remuneration to one or more Identified Staff when it feels that such an award would not be justified.
- The variable component of each individual member of Identified Staff’s remuneration shall generally be no more than 45% of their total remuneration, although the Remuneration Official may in his discretion award variable remuneration in excess of this percentage provided that the variable remuneration awarded is justified and in line with this Remuneration Policy. In all cases, the fixed remuneration of Identified Staff must be sufficiently high on its own (without taking into consideration the variable component) to constitute fair remuneration for the professional services rendered by prevailing market standards.
- Variable remuneration will not be paid through vehicles or other methods.
- The Manager will award, pay, or provide guaranteed variable remuneration only in the context of hiring new Identified Staff and such remuneration will be limited to the first year of service.

## **PENSION POLICY & SEVERANCE PAY**

### *Principles*

- The Manager’s pension policy must be in line with its business strategy, objectives, values and long-term interests of the Manager and the UCITS.
- Payments related to the early termination of a contract must reflect performance achieved over time and be designed in a way that does not reward failure.

### *Policies & Procedures*

- The Manager does not currently have a pension policy for its Identified Staff. Should the Manager decide to adopt a pension policy in the future, such policy will be in line with its business strategy, objectives, values and long-term interests of the Manager and the UCITS.
- Severance pay of Identified Staff shall be determined on a case-by-case basis by the Board and shall be based on a risk-adjusted performance assessment covering the entire period of employment.

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## PERSONAL HEDGING STRATEGIES

### *Principles*

Employees are required to undertake not to use personal hedging strategies or remuneration and liability-related contracts of insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

### *Policies & Procedures*

- Subject to any exception that may be provided under the applicable law, Identified Staff are strictly prohibited from entering into any contract (including but not limited to a contract of insurance) with a third party requiring payment from the third party to them, directly or indirectly, that is linked to the amount by which their variable remuneration may be reduced.
- All Identified Staff are required to undertake to the Manager in writing that they will comply with the above principle and the Manager's policy on hedging strategies. An e-mail from each member of the Identified Staff will suffice for this purpose. Breach of this undertaking will result in appropriate disciplinary action by the Board.

**Approved by the Remuneration Official on the 15<sup>th</sup> May 2017**

*Guidance notes on the application of the proportionality principle in relation to the ESMA guidelines on sound remuneration policies under the UCITS directive and the AIFMD*

*MFSA's Guidance notes on the application of the proportionality principle in relation to the ESMA guidelines on sound remuneration policies under the UCITS directive and the AIFMD*

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