

## **Remuneration Policy**

### **1. Introduction**

- 1.1 Heptagon Fund plc (the “Company”) is authorised by the Central Bank of Ireland as Undertaking for Collective Investment in Transferable Securities (UCITS) pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011, as amended.
- 1.2 In accordance with its obligations pursuant to Directive 2014/91/EU of the European Parliament and of the Council (“the UCITS V Directive”), the Company is required to have remuneration policies and practices applying to those categories of staff, including senior management, risk takers, persons occupying control functions, and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management. The remuneration policies and practices must also apply to risk takers whose professional activities have a material impact on the risk profiles of the Company and the staff of the entity(ies) to which investment management activities have been delegated by the Company, where the activities of such delegates have a material impact on the risk profile of the Company (“identified staff”). The remuneration policies and practices must be consistent with and promote sound and effective risk management and do not encourage risk-taking that is inconsistent with the risk profiles, rules or articles of association of the Company.

### **2. Application of Remuneration Policy**

- 2.1 The Company is a self-managed investment company having a board of directors (the “Board”) but no employees. Therefore, the directors of the Company are the only identified staff of the Company. However, this remuneration policy also addresses the remuneration requirements of the UCITS V Directive as they apply to the delegates of the Company (see section entitled “Portfolio/Risk Management Staff” below).
- 2.2 This remuneration policy also includes information on the integration of sustainability risks in the Company’s remuneration procedures, as required by the EU Sustainable Finance Disclosure Regulation (“SFDR”).
- 2.3 This remuneration policy has been adopted by the members of the Board in their supervisory function and any revisions to this remuneration policy require the approval of such members of the Board. This remuneration policy will be reviewed on an annual basis to ensure the remuneration policy is operating as intended and is consistent with the remuneration principles set out in the UCITS V Directive. The remuneration principles are set out in Schedule 1 of this remuneration policy.

### **3. Remuneration Policy Framework**

- 3.1 The purpose of the Company’s remuneration policy is to seek to ensure that the remuneration arrangements of identified staff:
- (A) are consistent with and promote sound and effective risk management and do not encourage risk-taking which is inconsistent with the risk profile, rules or articles of association of the Company; and
  - (B) are consistent with the Company’s business strategy, objectives, values and interests and includes measures to avoid conflicts of interest.

### **4. Payout Principles**

- 4.1 As the Company does not pay any variable remuneration to any of its identified staff, namely the directors of the Company, the principles in respect of variable remuneration as outlined

in the UCITS V Directive (known as the “pay-out process”) are not applicable to the Company and can be disapplied.

## **5. Applicable Remuneration**

- 5.1 The principles set out in this remuneration policy apply to remuneration of any type paid by the Company including carried interest and to any transfer of shares of the Company in certain circumstances in exchange for professional services rendered. Fixed remuneration means payments or benefits without consideration of any performance criteria.

## **6. Portfolio/Risk Management Staff**

- 6.1 The Company has the facility to appoint delegates to carry out management activities on its behalf in accordance with its delegation policy. The Company has delegated responsibility for its portfolio management function to its investment manager (the “Investment Manager”). The Investment Manager in turn is permitted to delegate its duties in accordance with the Central Bank’s requirements. The Company has determined that the remuneration rules to be applied to identified staff shall apply to both the Investment Manager and the sub-investment managers to which the Investment Manager delegates.
- 6.2 It is the Company’s duty to undertake a proportionality assessment of all identified staff in order to determine how the remuneration rules should be applied.
- 6.3 The European and Securities Markets Authority’s (“ESMA”) guidelines on remuneration state:

*When delegating investment management functions (including risk management) according to article 13 of the UCITS Directive, where the remuneration rules would otherwise be circumvented, management companies should ensure that:*

- (A) The entities to which investment management activities have been delegated are subject to regulatory requirements on remuneration that are equally as effective as those applicable under these guidelines (being the ESMA guidelines); or*
- (B) Appropriate contractual arrangements are put in place with entities to which investment management activities have been delegated in order to ensure that there is no circumvention of the remuneration rules set out in the present guidelines; these contractual arrangements should cover any payments made to the delegates’ identified staff as compensation for the performance of investment management activities on behalf of the management company.*

*For the purpose of letter (A) under the previous paragraph, an entity can be considered subject to regulatory requirements on remuneration that are equally as effective as those applicable under these guidelines, inter alia, where the following conditions are met:*

- (A) the entity with whom the delegation arrangement is concluded is subject to the remuneration rules under Directive 2013/63/EU (CRD IV) or Directive 2011/61/EU (AIFMD); and*
- (B) the staff of the entity who are identified staff for the purposes of these guidelines are subject to the CRD IV or AIFMD rules.*

- 6.4 To ensure that the delegation of the portfolio management functions to delegates does not act in a way so as to circumvent this remuneration policy, the Company will ensure delegates comply with this remuneration policy, or alternatively are subject to remuneration regimes that are equally effective.

- 6.5 In determining if the Investment Manager and any sub-investment managers appointed are subject to remuneration requirements that are equally effective to those under the UCITS V Directive, the Company firstly considered the jurisdiction in which each entity is located to determine if those jurisdictions have implemented remuneration requirements. Where such jurisdictions have not introduced remuneration requirements equivalent to those under the UCITS V Directive, the Company has analysed whether the relevant entities are subject to CRD IV or the AIFMD. Both are considered equally effective regimes as the UCITS V Directive remuneration regime. However, those entities falling under the remit of CRD IV and AIFMD are only considered to be subject to an equivalent regime if the individuals who should be captured under the UCITS V Directive remuneration rules have been identified as identified staff and are subject to the remuneration rules applicable to them under the equivalent regimes.

#### *The Investment Manager and Sub-Investment Managers*

The Investment Manager is a MiFID investment firm and is subject to the remuneration regime set out under CRD IV.

The Investment Manager has confirmed that its staff, whose professional activities have a material impact on the risk profiles of the Company, are deemed identified staff for the purposes of CRD IV. Accordingly, there is no requirement for the remuneration requirements under UCITS V to apply to the Investment Manager.

Similarly, sub-investment managers appointed by the Investment Manager that are located in jurisdictions, or subject to regimes, with equally effective remuneration requirements as those set out in the UCITS V, will not be subject to the remuneration requirements under UCITS V.

An analysis, of each of the sub-investment managers appointed by the Investment Manager, where they are not deemed to be subject to an equally effective remuneration regime, has been carried out.

Following this analysis, the Company is of the opinion that each sub-investment manager's remuneration arrangements:

- (A) are consistent with and promote sound and effective risk management and do not encourage risk-taking which is inconsistent with the risk profile, rules or articles of association of the Company; and
- (B) are consistent with the Company's business strategy, objectives, values and interests and includes measures to avoid conflicts of interest.

#### *Future Appointments of Sub-Investment Managers*

An assessment of all future sub-investment managers to be appointed by the Investment Manager will be carried out to determine whether the UCITS V Directive remuneration principles need to be applied to them.

Where necessary, contractual arrangements entered into with sub-investment managers will be drafted to specifically refer to the UCITS V Directive remuneration principles and to ensure there is no circumvention of the principles or the UCITS V remuneration requirements.

## **7. Sustainability Risks – Article 5 of the SFDR**

- 7.1 The Company's remuneration policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the Company.
- 7.2 The risk limiting features of the remuneration policy extend beyond financial risks to encompass sustainability risks.
- 7.3 Relevant individuals who are involved in implementing and/or overseeing the Company's Sustainability Risks Policy will be assessed in this respect as part of the determination of variable remuneration awards by reference to their risk-adjusted performance.
- 7.4 The Company does not have any identified staff responsible in the management of either a portfolio or asset level with quantitative sustainability-focused performance targets and therefore this is a qualitative assessment in respect of adherence to the Company's internal procedures for integration of sustainability risk as outlined above.
- 7.5 Further, another key aspect of the Company's remuneration policy is with respect to avoiding creating an environment which rewards or encourages excessive risk-taking. These risk limiting principles are extended beyond financial risk to incorporate sustainability risks and for those individuals who have a role in ensuring or overseeing that the Company's Sustainability Risk Policy is adhered to, this is factored into decisions in respect of variable remuneration awards.

## **8. Non-Executive Directors**

- 8.1 The Non-Executive members of the Board of Directors receive a fixed fee only and do not receive performance-based remuneration, therefore avoiding a potential conflict of interest. The basic fee of a Non-Executive Board member is set at a level that is on par with the rest of the market and reflects the qualifications and contribution required in view of the Company's complexity, the extent of the responsibilities of the Board member, the number of board meetings, as well as the number of sub-funds of the Company. No pension contributions are payable on Non-Executive Board members' fees.
- 8.2 The Company's accounts are audited by Grant Thornton who will ensure that the necessary disclosures are made in relation to remuneration in the annual audited accounts.

## **9. Remuneration Committee**

- 9.1 The ESMA guidelines provide that if an entity that is significant in terms of its (i) size, (ii) internal organisation, or (iii) nature, scope and complexity of its activities, it is required to establish a remuneration committee.
- 9.2 If this requirement is to be disapplied by the Company, an assessment of what is proportionate must be carried out taking (i) – (iii) immediately above into consideration. Having considered (i) – (iii), the Board has decided to dis-apply the remuneration committee requirement provided for in the ESMA guidelines. The Board is satisfied that the decision to disapply this requirement is reconcilable with the risk profile, risk appetite and strategy of the Company and each of its sub-funds. This decision will be kept under review and will be reconsidered by the Board if more complex strategies or unusual derivatives are employed by the Company.

## **10. Annual Review**

- 10.1 This remuneration policy (together with compliance herewith) will be subject to annual review. These reviews will ensure that:

- (A) the overall remuneration system operates as intended;
- (B) the remuneration pay-outs are appropriate;
- (C) the risk profile, objectives and goals of the Company are adequately reflected; and
- (D) the policy reflects available guidelines and regulatory requirements.

10.2 The Board will take appropriate measures to address any deficiencies.

**11. Circumstances where action is required**

- 11.1 Following a review of adherence to the Company's remuneration policies and procedures, action may be required if remuneration levels do not adhere to the principles set out herein or are at a level which is unacceptable or gives rise to conflicts of interest. The action to be taken may include possible revision of the level of remuneration payable to the individual(s) concerned.
- 11.2 The responsibility for determining action to be taken and for taking action on behalf of the Company lies with the Board.

## Schedule 1

### Remuneration Principles as outlined in Article 14b of the UCITS Directive

In accordance with Article 14(b)(1) of the UCITS Directive, the Fund must comply with the following principles regarding remuneration applicable to its Identified Staff in a way and to the extent that is appropriate to the Fund's size, internal organisation and the nature, scope and complexity of its activities:

- (a) the remuneration policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking which is inconsistent with the risk profiles, rules or instruments of incorporation of the Fund;
- (b) the remuneration policy is in line with the business strategy, objectives, values and interests of the Fund and of the investors in the Fund, and includes measures to avoid conflicts of interest;
- (c) the remuneration policy is adopted by the Management Body of the Fund in its Supervisory Function and that body adopts, and reviews at least annually, the general principles of the remuneration policy and is responsible for, and oversees, their implementation.

The tasks referred to in this point shall be undertaken only by non-executive members of the Management Body who have expertise in risk management and remuneration.

- (d) the implementation of the remuneration policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the Management Body of the Fund in its Supervisory Function;
- (e) staff engaged in control functions are compensated in accordance with the achievement of the objectives linked to their functions, independently of the performance of the business areas that they control;
- (f) the remuneration of the senior officers in the risk management and compliance functions is overseen directly by the remuneration committee;
- (g) where remuneration is performance related, the total amount of remuneration is based on a combination of the assessment as to the performance of the individual and of the business unit or Fund and as to its risks and of the overall results of the Fund when assessing individual performance, taking into account financial and non-financial criteria;
- (h) the assessment of performance is set in a multi-year framework appropriate to the holding period recommended to the investors of the Fund in order to ensure that the assessment process is based on the longer term performance of the Fund and its investment risks and that the actual payment of performance-based components of remuneration is spread over the same period;
- (i) guaranteed variable remuneration is exceptional, generally occurs only in the context of hiring new staff and is generally limited to the first year of engagement;
- (j) fixed and variable components of total remuneration are appropriately balanced and the fixed component represents 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;

- (k) payments relating to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure;
- (l) the measurement of performance used to calculate variable remuneration components or pools of variable remuneration components include a comprehensive adjustment mechanism to integrate all relevant types of current and future risks;
- (m) subject to the legal structure of a Fund and its fund rules or instruments of incorporation, a substantial portion, and in any event at least 50 per cent of any variable remuneration component consists of shares of the Fund, equivalent ownership interests, or share-linked instruments or equivalent non-cash instruments with equally effective incentives as any of the instruments referred to in this subparagraph, unless the management of each sub-fund of the Fund accounts for less than 50 per cent of the total portfolio managed by the Fund, in which case the minimum of 50 per cent does not apply.

The instruments referred to in this subparagraph shall be subject to an appropriate retention policy designed to align incentives with the interests of the Fund and the investors of such Fund. The Member States or their competent authorities may place restrictions on the types and designs of those instruments or prohibit certain instruments as appropriate. This subparagraph shall be applied to both the portion of the variable remuneration component deferred in line with subparagraph (n) and the portion of the variable remuneration component not deferred;

- (n) at least 40 per cent, of the variable remuneration component is deferred over a period which is appropriate in view of the holding period recommended to the investors of the Fund and is correctly aligned with the nature of the risks of the Fund. The period referred to in this subparagraph shall be at least 3 years; remuneration payable under deferral arrangements vests no faster than on a pro-rata basis; in the case of a variable remuneration component of a particularly high amount, at least 60 per cent of the amount shall be deferred;
- (o) the variable remuneration, including the deferred portion, is paid or vests only if it is sustainable according to the financial situation of the Fund as a whole, and justified according to the performance of the business unit, the Fund and the individual concerned. The total variable remuneration shall generally be considerably contracted where subdued or negative financial performance of the Fund occurs, taking into account both current compensation and reductions in payouts of amounts previously earned, including through malus or clawback arrangements;
- (p) the pension policy is in line with the business strategy, objectives, values and long-term interests of the Fund. If the employee leaves the Fund before retirement, discretionary benefits shall be held by the Fund for a period of five years in the form of instruments referred to in subparagraph (m). In the case of an employee reaching retirement, discretionary pension benefits shall be paid to the employee in the form of instruments referred to in point (m), subject to a five year retention period;
- (q) staff 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; and
- (r) variable remuneration is not paid through vehicles or methods that facilitate the avoidance of the requirements laid down in the UCITS Directive.

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