Remuneration Policy – Sustainability Risks (Article 5 of Regulation (EU) 2019/2088)

EU Sustainable Finance Disclosure Regulation

The Sustainable Finance Disclosure Regulation ("SFDR" or the "Regulation") applied from 10 March 2021. The Regulation requires financial market participants such as Capital Dynamics (the "firm") to provide information to investors with regards to the integration of sustainability risks, the consideration of adverse sustainability impacts, the promotion of environmental or social characteristics, and sustainable investment.

Therefore, this Remuneration Policy (Sustainability Risks) specifically addresses the obligation in Article 5 of the Regulation:

"Financial market participants and financial advisers shall include in their remuneration policies information on how those policies are consistent with the integration of sustainability risks, and shall publish that information on their websites."

Sustainability risks

A "Sustainability Risk" as defined in Article 2 (22) of the Regulation is: "*an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment*".

Sustainability Risks include (but are not limited to) the following:

- environmental risks such as the impacts of environmental events such as increased flooding risks on operations of portfolio companies;
- social risks such as impact of non-compliance with anti-slavery or working conditions laws and regulations by a portfolio companies; and
- governance risks such as inadequate management oversight of portfolio companies.

Remuneration and sustainability risks

Sustainability Risks, by nature, can often play out over long time horizons and are therefore well suited for integration with the firm's remuneration policies which are intended to reflect not just short-term value contribution but, more importantly, long-term value creation of business activities. However, Capital Dynamics also recognises the risk that if not appropriately structured, the remuneration policies and the incentives they create could lead to negative impacts on Sustainability Risks. Therefore, the firm has adopted a remuneration policy effective as of 1 April 2021 which it believes is consistent with the integration of Sustainability Risks both in the long term and with respect to more short term variable compensation.

Variable Compensation

Among other forms of remuneration that are provided on a fixed basis, the firm awards employees variable discretionary bonuses on an annual basis. This includes a comprehensive review of the employees’ contributions across various criteria and as the firm believes that long-term sustainability factors should be properly integrated across the firm, part of the appraisal criteria relates to an employee’s relative contribution to sustainability initiatives of the firm. These criteria are however applied in a differential way among team members as is appropriate to their impact on the firm’s investment activities that may or may not be exposed to sustainability risks.

Review of the Policy

This Remuneration Policy (Sustainability Risks) (Version 1) is effective as of 1 April 2021 and has been updated (version 3) as of 13 February 2023.