Remuneration

Policy and Procedure (the Policy)

Document History

Version	Date	Author/Editor	Changes/Modifications
1.0	2013.12.01	Dr Paul Magro	
1.1	2014.03.30	Reuben Brimmer	MFSA : Guidance on Proportion.Princ. iro ESMA on Remun. under AIFMD
1.2	2015.08.07	Reuben Brimmer	Annex 1 (RB & KT ilo JPortelli) & s7 amended
1.3	2015.09.29	Dr Samuel Azzopardi	Re-draft post MFSA review
1.4	2015.12.08	Reuben Brimmer	Re-draft post MFSA email 9th Oct
1.5	2017.02.13	Reuben Brimmer	Review (update Annex I)
1.6	2018.03.13	Claire Camilleri Gauci	General review in line with comments from MFSA onsite visit

Contents

Executive Summary

FMG (MALTA) Ltd. (the "Company") is an investment management company with experience in various domiciles, fund structures, and investment areas - including a 25-year track record in the emerging and frontier market asset management business.

This Policy has been drafted in accordance with Regulation 14 and Schedule II of the European Union Alternative Investment Fund Managers Regulations, 2013 (the "AIFM Regulations"); the MFSA's Investment Services Rules for Investment Services Providers (collectively, the "Regulations"); and the Guidelines on Sound Remuneration Policies Under the UCITS and AIFMD issued by the European Securities Markets Authority ("ESMA Guidelines") (the Regulations and the ESMA Guidelines, collectively, the "Remuneration Requirements").

1.0 – Introduction

The objective of this Policy is to establish, implement and maintain remuneration policies, procedures and practices that – whilst being in line with the Remuneration Requirements – support the Company's business objectives and corporate values, including promoting sound and effective risk management, by attracting, retaining and motivating the key talent to achieve its objectives.

In accordance with the proportionality provisions and of the Regulations, together with the risk profile, appetite and risk strategy of the Company and each of its' managed funds, taking into account a non-exhaustive combination of its size, nature and the, scope and complexity of its activities, together with any other relevant criteria and within the limits of the ESMA Guidelines (as per section 6 below), the Board has dis-applied the requirements of the ESMA Regulations and the Guidelines in relation to the following:

- variable remuneration in instruments;
- retention;
- deferral;
- ex post incorporation of risk for variable remuneration (together, with the immediately foregoing bullets points, the Pay-out Process Rules); and
- the requirement to establish a remuneration committee

2.0 – Scope

This Policy applies to the Company's identified staff (see Annex I) in terms of the standard licence condition 3.05 of Part BIII of the investment services rules for alternative investment fund managers (the "Rules").

It covers all aspects of remuneration including salaries, bonuses, incentive plans, hiring and severance packages, pension arrangements, etc. The Company shall avoid creating any incentive for employees to take any inappropriate risks and in general all remuneration-related decisions are approved by the Board.

3.0 – Risk Management and Risk Tolerance

It is the Company's policy to promote sound and effective risk management and to discourage risk-taking that exceeds the level of tolerated risk of the Company. As such the Company shall maintain:

- Strong disclosure practices, which provide investors with the information they need to determine whether to invest in a fund, to monitor their investment and to make a decision whether to redeem their investment, based on the risk profile of the investment strategy;
- Robust valuation policies and procedures to provide for clear and consistent valuations of the investments in the funds' portfolio, with independent oversight provided by the funds'
- Board or other governing body, third party administrators, independent auditors;
- Comprehensive risk management processes to measure, monitor, report and manage risk, including stress testing of the portfolio and liquidity risk management;
- Sound operational and regulatory systems and controls; and
- A strong culture of compliance, sponsored by Senior Management with specific practices to address conflicts of interest.

Due to the nature of the market, and sensitivity of investors to both risk and performance, the Company has determined that its offering is based on its ability to provide an agreed balance between risk and reward. This balance is to be respected in the Company's risk management and remuneration policy. The Company shall not manage portfolios which become systemically important as this brings with it additional risks that the Company would not be in a position to manage as their determination is outside the control of the Company.

As this is part of the Company's investment strategy, the Company shall not operate risk policies which may result in mirroring the risk profile of other investment pools or being involved in investment propositions which result in the strategy being operated in line with a group of other managers which may result in a policy having a systemic impact on the market. Therefore, the

Company shall align its remuneration policies with its risk profile which attempts to be diversified against the market.

4.0 – Supporting Business Strategy

Policy shall be in line with the business strategy, objectives, values and long-term interests of the Company and its investors:

> *The Company's business objective is to provide investors with absolute returns within a reasonable risk profile that protects their assets from significant falls in the market.*

The Company operates management fees, performance fees and high-water marks.

This means that it is expected that the manager will cover its costs even during poor performance having a sufficient income to be able to look after the assets during adverse market conditions.

The Company considers its wind down process as part of its Internal Capital Adequacy Assessment process to ensure that it would take such steps to protect the assets before it runs out of resources. The performance fees accrue only once the funds under management earn positive returns for investors and there are high–water marks. Absolute returns promised are only rewarded when achieved.

In order to achieve principles 1 and 2 the Company is required to attract appropriate talent which creates a balance of people who take risk and those who can manage it. As such the Company needs to provide some flexibility and retain confidentiality in respect of some of the terms it introduces. However, these terms are appropriate and respect the principles in this policy. In line with its business objectives, the Company needs to manage its fixed costs against this background and ensure that any variable costs are only payable once actual performance targets are achieved.

5.0 – Avoiding Conflicts of Interest

The Company considers all conflicts within its Conflicts of Interest Policy. This requires the Company to review potential conflicts of interest on a regular basis.

Conflicts of interest involve a failure by the Company to act in the best interests of its clients and will typically involve a material risk of damage to the interests of any client. Either the Company (and connected persons) may gain a benefit at the expense of a loss or disadvantage to a client; or one client may gain a benefit at the expense of a loss or disadvantage to another client. When assessing a potential conflict of interest the Company must consider whether it:

Is likely to make a financial gain, or avoid financial loss, at the expense of the client;

- Has a distinct interest in the outcome of the service provided to the client or of a transaction carried out on behalf of the client;
- Has a financial or other incentive to favour the interest of another client or group of clients over the interests of the client;
- Carries on the same business as the client; or
- Receives, or will receive, from a person other than the client an inducement in relation to the service provided to the client, in the form of monies, goods or services, other than the standard commission fee or fee for that service.

Individuals may act unfairly between clients if their remuneration structure encourages them to favour one fund over another. The Company ensures fair treatment of clients by having an investment policy and ensuring that it adheres to that policy; investment opportunities are allocated in line therewith.

The Company aligns its interests with the interest of its clients by the operation of this Policy. Senior Management’s holdings in the funds align their interests with that of investors. Furthermore, remuneration is designed to ensure return is achieved in line with risk management. The long-term objectives of the Company and the clients are to achieve absolute returns throughout the life time of the funds. Therefore, the objective of long-term returns aligns the interests of both parties.

The Company also operates a high-water mark to ensure such long-term alignment. Lastly, the Company has a Conflicts of Interest Policy to avoid undue influence on the trade allocation process.

6.0 – Governance

The Company, based on its size, internal organization and the nature, scope and complexity of its activities, [1] has elected **not** to establish a Remuneration Committee. Given required material changes to the Company a separate Remuneration Committee shall be established.

The objectives, constitution and responsibilities of the Remuneration Committee would include:

- Oversight of the Remuneration Policy, to ensure these are operated in a way that promotes effective risk management and does not encourage risk taking which exceeds the stated risk appetite and framework;
- Ensuring that the risks associated with the operation of remuneration policies are considered;
- Giving due regard to any relevant legal and regulatory requirements, and associated guidance, as well as to the risk and risk management implications of its decisions;
- Reviewing and, if thought fit, approving remuneration proposals who are impacted by any local regulations from time to time.

Mr Joseph Grioli and Dr Samuel Azzopardi have been nominated Directors responsible for overseeing compliance with this policy. Both Directors are non-executive Directors.

[1] Namely due to:

(i) **Size** - AUM <€500 million and <15 employees;

(ii) **Internal Organization** – multiple but simple legal structures, simple internal AIFM governance, no planned listings on any regulated market or exchange of either the Company or its funds, segregation of duties (also via delegation to independent third-parties);

(iii) **Nature, scope and complexity of activities** – multiple but clearly structured activities, high-risk (emerging and frontier markets) but non-complex strategies & products, well-defined risk restrictions, high-quality risk management; and.

(iv) **Remuneration** – No employee has either variable remuneration exceeding 50% of total remuneration, or total remuneration exceeding €600k.

The above-listed objectives, constitution and responsibilities are currently handled by the Board. In view, however, of his involvement in Portfolio Management, Mr Karl Tonna will abstain from the set-up and implementation of this Remuneration Policy.

The Company monitors fund performance against its own risk profile and will ensure that individual reward is linked to appropriate risk management practices. This Policy will be reviewed on an annual basis as part of annual process and procedures.

7.0 – Independent Control Function

The Company has some control functions undertaken by entities appointed by the Board. As such the internal resources dedicated to control functions are involved in the oversight of activities (listed hereunder) which are already being undertaken by independent entities:

- External Book-Keeping;
- Independent External Auditors;
- Fund Appointed Administrators (External Middle Office);
- Fund Appointed External Auditors;
- Fund Appointed Compliance Officer;
- Independent IT Service Providers; and
- Risk Management.

Any issues which arise as a result of the overlap of responsibilities or a conflict of interest can be raised to the Board for determination.

The relevant control functions (i.e. risk management, compliance, etc.), whether delegated or not, are responsible to review the remuneration policy and its implementation in line with this Policy

8.0 – Compliance and Risk

The Board has reviewed this Policy and confirmed its implementation and that it also applies to the senior officer(s) in the risk management and compliance functions. The Senior Management team authorises changes to remuneration payments in line with this Policy and payments are assessed by the Board as conducted in line with this Policy.

Due to the relatively small number of people in the organisation and the commercial and personal sensitivity of the information on a person's income, the Company aims to restrict the distribution of such information as much as possible and in line with this Policy and requirements.

9.0 – Remuneration and Capital

9.1 Remuneration of the Board

The fixed fee of the independent directors of the Board are commercially negotiated. Members of the Board who are employees of the Company do not receive any fee (either fixed or variable) for acting as a Director.

9.2 Remuneration of risk and compliance

The remuneration of the risk management personnel (namely, the chief risk officer, the risk manager and the risk officer), the compliance officer, the MLRO, Internal Auditor and any other control functions reflects the achievement of the objectives linked to their respective functions and is done so independently of the overall performance of the business and/or of any managed fund. Their respective remuneration is established via the relative agreement that is in place with the above persons.

9.3 Remuneration of Control Functions

Management staff engaged in control functions shall be compensated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

In this regard the key business indications assigned to the persons in controlled function shall not refer to the financial performance of the Company (Also refer to section 10.0 below)

9.4 Remuneration of employees

Senior Management agree with individuals the nature of their reward structures when they are hired, and this is subject to on-going review by the Board; see section 10 below. The Board decides, and annually reviews, whether hired individuals fall under Identified Staff (and document why this should not be so).

The Company ensures that any material change in remuneration is only effected after the Company has satisfied its capital resource requirements under Pillar 1 and following a Pillar 2 assessment of its capital position. This includes a consideration of direct and indirect risks to the Company and stress and scenario testing.

9.5 Remuneration: Delegation of Management Functions

9.5.1 Supervision

When delegating certain portfolio management and certain risk management activities to the duly appointed investment managers in accordance with Regulation 21 of the Regulations, the Company will ensure that:

The entities to which the portfolio management and risk management activities have been delegated are subject to regulatory requirements on remuneration that are equally as effective as those applicable under the Remuneration Requirements (e.g. where relevant, the entity and its identified staff are subject to AIFMD, MiFID or CRD); or appropriate contractual arrangements are put in place in order to ensure that there is no circumvention of the applicable Remuneration Requirements; these contractual arrangements cover any payments made to the delegates' Identified Staff as compensation for the performance of portfolio or risk management activities on behalf of the Company, and the CIS they manage on behalf of the Company under the terms of the relevant delegation agreement. These arrangements may also include applying an appropriate remuneration policy at the level of an individual CIS.

The Board requires the investment manager of a fund to provide them with an annual confirmation that its remuneration policies and practices are in line with the applicable and relevant Remuneration Requirements.

The on-boarding and annual review of the investment managers will include an action to review the remuneration policy and/or related contractual arrangements as applicable of the investment managers.

9.5.2 Proportionality

The Company notes that the variable remuneration instruments requirement of the ESMA Guidelines does not apply where the fund (AIF) in question comprises less than 50% of the Company's total assets under management. As such, the Company considers that such a requirement should not apply in the case of an investment manager delegate where the fund to which it (the delegate) has been appointed accounts for less than 50% of the said delegate's assets under management

Where permitted under the Regulations and having regard to the ESMA Guidelines, the Company intends to adopt a similar approach to the application of the principle of proportionality to its delegates as it does to the remuneration of its own Identified Staff. Factors which the Board will take into account when considering whether the Pay-out Process Rules and the requirement to establish a remuneration committee may be disapplied in relation to a delegate on the ground of proportionality will include the number of staff employed, the number of funds managed and strategies used, whether the delegate is listed, traded or owned by its partners, the nature of certain fee structures, such as carried interest and performance fees and the nature of the delegation arrangements between the Company and the delegate.

10.0 – Profit-Based Measurement and Ex-Ante Risk Adjustment

Fixed-based remuneration, i.e. salary, is agreed at the point of hiring the individual and is in line with prevailing market conditions for the specific condition. Salaries are reviewed on an annual basis. Individuals (Risk Takers) are reviewed based on their contribution to the overall strategy in the following areas:

- Qualifications & Experience
- Investment Generation;
- Investment Trading;
- Sales and Marketing; and
- Operations.

In case of Control Functions, the Company will control Fixed Remuneration on:

- Qualifications & Experience
- Reputation in the technical and interpersonal skills
- Experience in similar company set up

The review also assesses the competencies for both financial and non-financial metrics, and specific behavioural competencies including compliance matters. Competencies assessed are:

Contribution and Effectiveness;

- Business and Technical knowledge;
- Attitude and Commitment;
- Communication;
- Ability to carry out relevant role without supervision, taking into account the individual's experience, knowledge and skills;
- Ability to pass the MFSA's fit and proper test for approved persons (for senior positions); and
- Compliance with and provision of all records required by the Company's policies and procedures.

At the end of each financial year performance reviews are completed by Senior Management and these feed into the compensation review. Compensation recommendations for all of the Company's identified staff will ultimately be reviewed and approved by the Board prior to finalization. In case of outsourced functions, performance appraisal shall be carried out. Revision to the financial compensation not be reviewed as a result to the above and it shall be regulated by the relative service agreement that is/are in place with such person.

When reviewing performance (Risk Takers), the following will be considered:

Qualitative	**Quantitative**
Employees to act honestly, fairly and professionally in the best interest of clients and investors	Overall funds' performance with appropriate stress testing
Individual performance relative to job requirements, with specific attention to stand out performance	Overall Company Performance
Attitude towards compliance with the Company's policies and procedures	Competitive market benchmarking data
	Collective performance of the relative team

The review shall be discussed with individuals and is in line with both clients' and investors' requirements and the Company's requirements – in terms of both current and potential risks. This aligns the risk profile appropriately to remuneration.

In case of Control Function, the following shall be considered:

Qualitative	**Quantitative**
Achievement of Objectives related to their role	Breaches
Implementation of Compliance Culture	Number of additional hours dedicated to perform the role
Outcome of Compliance and Internal Audit	Achievement of Efficiency

Each Head of function (as per organisational chart) shall be responsible for the appraisal of staff once a year. This shall be presented following discussions with the staff concerned by end of May of each year. The Managing Director shall be appraised by the Board.

11.0 – Pension Policy

The Company does not operate a company pension scheme.

12.0 – Personal Investment Strategies

Employees are prohibited from using personal hedging strategies or contracts of insurance relating to remuneration which could undermine the risk alignment effects embedded in their remuneration arrangements.

The Company will review on an annual basis the personal account dealing records of employees to ensure that employees are not using personal hedging strategies in breach of their undertakings.

13.0 – Avoidance of Remuneration Code

The Company will not pay remuneration through any vehicles or methods that will facilitate the avoidance of the Remuneration's Policy.

14.0 – Remuneration Structures

As mentioned in Section 10, individuals are reviewed based on their contribution to the overall strategy, which is assessed on an annual basis, taking into account their contribution to investment generation, investment trading, sales and marketing and operations, but the Company's ability to maintain competitive salaries is based on the performance of the funds it manages.

(a) Guaranteed Bonuses

The Company does not award, pay or provide guaranteed variable remuneration.

(b) Buy-Out Awards

Buy-out awards will only be offered exceptionally and will reflect the amount and terms (including any deferral or retention periods) or the variable remuneration awarded or offered by the individual's previous employer.

(c) Severance

Severance pay is at the Company's absolute discretion, unless contractually defined. Any payments related to early termination of contracts or retirement from employment will reflect performance achieved over time and will be designed in a way which does not reward failure.

Severance packages for employees and any material severance payments are subject to the approval of the Board.

(d) Enhanced Pensions

The Company does not provide any enhanced pension benefits to employees

15.0 – Transparency / External Disclosure

In line with ESMA Guidelines the Company shall disclose its independent Remuneration Policy statement in the annual report. This shall explain the manner how the Company is managing Remuneration Risk, whether variable Remuneration has been paid and on which criteria. The report should also include what form of variable remuneration (i.e cash, equity, options, long term incentive plans etc) is used. The content should also include Qualitative and Quantitative assessment used for assessing individual performance. Additionally, the allocation of deferred and non-deferred remuneration if any, for different staff categories should also be included in the report.

15.1 Disclosure of Funds

The Company shall also ensure that each AIF produces and files annual audited financial statements with the appropriate supervisory authority. Where appropriate, given the size and nature of the AIF and the impact to the Company's revenue streams of the income from the

AIF, the Company will ensure that the financial statements include the following disclosures in relation to remuneration paid by the Company:

Where an exemption is claimed from the above disclosure the Company will ensure the exemption is in accordance with the ESMA AIFMD Guidelines.

15.2 Internal disclosure

The Policy is accessible to employees and discloses at least the details that are disclosed externally so as to allow employees to know in advance the criteria that are used to determine their remuneration. Furthermore, the appraisal process is properly documented and is transparent to the employee concerned. Confidential quantitative aspects of the remuneration of employees are not subject to internal disclosure.

16.0 – Breaches of this Policy

Any significant breach of this policy or proposed changes to the policy that could have a significant impact on the Company's risk profile or resources will be promptly notified to the MFSA in accordance with their rules.

17.0 – Review

17.1 Compliance Review

The Compliance Officer of the Company monitors the Remuneration Policy on an on-going basis and at least once a year, and will submit a report on the Remuneration Policy to the Board for their review and consideration.

17.2 Internal Audit Review

The internal auditor of the Company will perform an independent review of this Policy and provide the results of this review to the Board. The Company's internal auditor is remunerated in accordance with the achievement of the objectives of the internal audit plan, i.e.

independently of the performance of the business areas overseen, including the operations of the Company and the funds managed.

17.3 Board review

The Board will assess whether this Policy is operating as intended and is compliant with the Remuneration Requirements. The Board will undertake this assessment at least an annual basis, seeking input from Risk, Compliance and other control functions and independent third parties as required.

17.4 Record Keeping

The remuneration policies of the Company and any delegates, all compliance officer and internal auditor reviews, and ad hoc independent reviews of remuneration, and any discussion items will be documented by the Company Secretary in the Board minutes.

18.0 – Involvement of Shareholders

Changes to the Policy and annual remuneration of staff shall be presented to the shareholders on an annual basis in the shareholders' meeting. The approval shall be undertaken in line with the Articles of Association.

Annex 1 – Identified Staff

ROLE/S	**SELECTION BASIS**
Non-Executive and Independent Director	Senior Mgt.
NED, Compliance Officer, MLRO	Senior Mgt., Control Function
NED, Valuation Committee Members	Senior Mgt., Control Function
Branch Director	Senior Mgt., Control function
Chief Operations Officer ("COO")	Senior Mgt., Control Function
Managing Director	Senior Mgt., Risk Taker
Investment Committee Members	Risk Taker
Portfolio Manager	Risk Taker
Chief Financial Advisor, Manager , Head Sales & Marketing	Risk Taker *(vis-à-vis CFA role)*
Internal Auditor	Control Function

ACRONYMS

1 – IC / VC = Investment Committee / Valuation Committee member

2 – Delegated by RiskCap International Limited