

## 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.

More information related to the firm’s responsibilities under the SFDR, and the firm’s approach to ESG (Environmental, Social, and Governance factors) and Responsible Investment in general, can be found [here](#), including:

- Sustainability Risk Policy
- Principal Adverse Sustainability Impacts Statement
- Responsible Investment Policy
- Modern Slavery Act Statement
- Responsible Investment Annual Report 2019-20 and 2020-21
- TCFD Disclosure Report 2020 and 2021

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## **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 ESG 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. As of 2022, Capital Dynamics formally links remuneration to employees' contribution towards ESG-related initiatives aimed at reducing sustainability risks and advancing ESG-oriented goals as part of initiatives led by the firm's Responsible Investment Committee, the net zero sub-committee, diversity and inclusion sub-committee and the communities sub-committee. Each Executive Committee member of Capital Dynamics participates in at least one of the firm's ESG committees. On an annual basis, the committee chairs set the sustainability-related objectives for each committee member and upon satisfactory performance, committee chairs and members qualify for an annual discretionary ESG-linked bonus.

### **Review of the Policy**

This Remuneration Policy (Sustainability Risks) (Version 1) is effective as of 1 April 2021 and has been updated (version 2) as of 1 December 2022.