



SMBC Nikko Investment Fund Management Company S.A.

# REMUNERATION AND INDUCEMENT POLICY

## PRESENTATION

<b>From</b>	<b>Management Committee</b>
<b>Reviewed by</b>	<b>Compliance Officer</b>
<b>Approved by</b>	<b>Board of Directors</b>

### Revision history

Establishment/ Revision date	Details
2 September 2014	First approval and implementation date
29 February 2016	First amendment and approval
31 January 2017	Second amendment and approval (IBSD approval no. 201701-14 on 31 January 2017)
2 June 2017	Third amendment and approval (IBSD approval no201706-01 on 2 June 2017)

### Scope

This Remuneration and Inducement Policy (the “Policy”) sets out the legal & regulatory requirements, as well as the related actions, which SMBC Nikko Investment Fund Management Company S.A. (hereinafter referred to as the “SNIF”) complies with in order to meet its obligations, in the area of remuneration and inducement, as management company authorized as Alternative Investment Fund Manager pursuant to the Luxembourg law of 12 July 2013 on Alternative Investment Fund Managers (the “AIFM law”). Such legal & regulatory requirements include:

- Appendix II “Remuneration Policy” of the AIFM law
- Guidelines on sound remuneration policies under the UCITS Directive and AIFMD dated 31 March 2016, ESMA (the European Securities and Markets Authority) 2016/411)
- Circular 10/437 by the Commission de Surveillance du Secteur Financier (hereafter “CSSF”)
- CSSF Circular 14/585

In summary SNIF has to establish, implement and maintain a remuneration policy which is consistent with and promotes sound and effective risk management and which does not induce excessive risk-taking. The policy must be in line with the business strategy, objectives, values and long term interests of SNIF.

All employees of SNIF shall be governed by the Policy (the “Employees”).

Furthermore, some Employees have been categorized as “Identified Staff” as follow:

- 1) Members of the Board of Directors of SNIF not considered as excluded (see section 4.2)
- 2) Members of the Management Committee

- 3)
- 4) Control Functions : Head of ,Fund Legal ,Compliance and Risk Management

For more information regarding these functions, please refer to the organisation chart of the Company in Appendix.

### **Delegation of Activities**

SNIF should ensure that the entities to which portfolio management or risk management activities have been delegated are subject to remuneration policies compliant either (i) with Annex II to the Alternative Investment Fund Management Directive or (ii) with the provisions of Markets In Financial Instruments Directive or (iii) with the Capital Requirement Directive III as regards remuneration or applying the same requirements as these regulations.

### **Effective Date**

The Policy repeals and replaces any previously issued policies and/or procedures on this subject and is applicable with immediate effect.

### **External Disclosure**

The Policy is made available to the CSSF in accordance with the terms hereof.

The Policy is available at SNIF's website: <http://www.nikkobank.lu/en/policies.html>

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## INDUCEMENT POLICY

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# REMUNERATION POLICY

## 1 Governance

SNIF puts in place the Policy to ensure that the remuneration of Employees is consistent with, and promotes effective risk management and would not lead Employees to take excessive risks.

The Board of Directors is responsible for approving the Remuneration Policy and for overseeing its implementation.

The Board of Directors does not encourage or reward a risk taking attitude by any Employee.

The Board of Directors is responsible for preparing significant remuneration decisions, in compliance with the Policy and subject to the approval of SMBC Nikko Securities Inc. ("SNS"). SNS is the parent company and sole shareholder of SMBC Nikko Bank (Luxembourg) S.A. ("SNBL"), which is the parent company and sole shareholder of SNIF. SNS is a wholly-owned subsidiary of Sumitomo Mitsui Banking Corporation.

Significant remuneration decisions taken by the Board of Directors, which might affect SNIF's risk profile, are subject to the approval of SNS. Other Employees are not authorised to take significant remuneration decisions.

The internal control functions as well as other key supervisory function committees should be closely involved in reviewing the remuneration system of the AIFM.

The Policy and any amendments thereto will be made available to the CSSF.

## 2 Conflicts of interest

SNIF will avoid conflicts of interest by producing internally documented clear and transparent procedures for determining the Employees' remuneration in accordance with regulatory requirements.

## 3 General guidelines

The Policy will be subject to regular, but at least once a year, review by the Board of Directors to assess its appropriateness and to ensure that it is in line with changes which might occur.

The guidelines of the Policy will be set such as not to work against SNIF's long-term perspectives and interests.

The Board of Directors will:

1. monitor and take into account how a variable remuneration paid to the Employees can affect the performance of SNIF at a later date due to such Employee modifying SNIF's current or future risk profile;

2. monitor that the variable remuneration is based on the year-end appraisal assessment of each concerned Employee, and ensure that the appraisal process is properly documented. The variable remuneration will not be based on individual financial performance factors;
3. monitor that the variable remuneration of each Employee after each financial year-end takes into account qualitative criteria, such as his/her compliance with SNIF's Code of Conduct, policies and procedures, his/her job description, his/her seniority within SNIF, his/her skills and knowledge;
4. ensure that there is an appropriate balance between the fixed and variable components of the remuneration, the former being a sufficiently large fraction of the total remuneration. The yearly variable remuneration shall in any case **not exceed 100%** of the yearly fixed remuneration;
5. ensure that forecast of negative development in SNIF's profitability will be taken into account;
6. ensure that the total variable remuneration does not significantly influence SNIF's financial results;
7. ensure that the Employees engaged in financial and risk control functions are not compensated based on the performance of SNIF; and their remuneration will be determined based on the achievement of objectives of the functions, and independently from the performance of the specific business areas they oversee to prevent any potential conflicts of interest.
8. Ensure that the Employees do not use personal hedging strategies or remuneration and liability related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

The payout of the variable remuneration is at the discretion of the Board of Directors and is never guaranteed, except as otherwise allowed by the CSSF.

The Board of Directors may require Identified Employees to repay all or part of the bonuses that have been awarded for performance parameters which are subsequently proven to be fraudulent (Claw Back post risk adjustments).

### **Proportionality principle**

SNIF shall comply with the AIFMD remuneration principles in a way and to the extent that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

Based on the size of the Management Company (number of employees, total value of assets under management for SNIF, total value of asset under management of each fund SNIF manages) and the risk and complexity of his activities, the Management Company invokes the proportionality principle.

By application of the proportionality, the following principles are not applied:

- The requirements on pay-out processes for all (or some) Identified Staff including:
  - a. Retention periods
  - b. Deferral requirements

- c. Ex-post incorporation of risk (sometimes referred to as claw back).
- The requirement to establish a remuneration committee.

## 4 Remuneration framework

### 4.1 Employees

Each Employee is employed under a service agreement between SNIF and said Employee (the “Employment Contract(s)”). Under his/her Employment Contract, the Employee’s remuneration comprises only one element, the fixed remuneration.

#### 4.1.1 Fixed remuneration

**The fixed remuneration** includes the monthly salary and the 13<sup>th</sup> month salary. The 13<sup>th</sup> month salary shall not be applicable to members of SNS being employed under a service agreement by SNIF (the “Japanese Delegates”). All other remuneration stipulated in the Collective Bargaining Agreement for Bank Employees are applicable to all Employees except Japanese Delegates. There are no guaranteed increases for the fixed remuneration, except for those foreseen by the Collective Bargaining Agreement for Bank Employees. Salary increases and promotions are subject to the approval of SNS after the end of each financial year and before SNIF make any payment. The initial fixed remuneration is set following criteria such as each Employee’s job description, his/her skills and knowledge.

In addition, SNIF may allocate at its sole discretion, as part of the fixed remuneration and depending on the position of the employees in the company, the following benefits (the type and level of which depending upon applicable policies):

- luncheon vouchers;
- complementary invalidity/death/health insurance coverage and complementary pension plans;
- indoor parking space / car parking subsidy;
- car leasing; and
- mortgage loan subsidies;

#### 4.1.2 Variable remuneration

**The variable remuneration** is a cash payment capped at a maximum value of 100% of the yearly fixed remuneration. A reserve for bonuses is set for payment to Employees based on an annual budget, which is prepared and approved by the Board of Directors and SNS at the beginning of SNIF’s financial year.

The total variable remuneration is subject to the **approval of SNS** before SNIF makes any payment in the first quarter of each fiscal year, taking into account all types of current and future risks as well as the cost of the capital and the liquidity required. The variable remuneration must not limit SNIF’s ability to sustainably maintain or recover an appropriate capital base.

Such variable remuneration, if applicable, is paid during the first quarter of SNIF’s following financial year.

The allocation of the total variable remuneration within SNIF is at the discretion of the Management Committee who takes into account all types of current and future risks.

Guaranteed variable remuneration shall be exceptional, may only be allowed in connection with the hiring of new Staff, provided that SNIF has a sound and strong capital base, and shall be limited to the

first year of employment. In addition, there shall be no contractual severance entitlements which do not reflect performance achieved over the time or which would reward failure or misconduct.

Remuneration packages relating to compensation or buy out from contracts in previous employment must align with the SNIF's long-term interests.

The Board of Directors may require Identified Staff to repay all or part of the bonuses that have been awarded for performance based on data which was subsequently proven to be fraudulent.

For each Employee other than members of the Board of Directors and Identified Staff, the Management Committee allocates and determines (at its discretion) the variable remuneration. For Identified Staff, the variable remuneration is determined by the Board of Directors upon recommendation of the Management Committee. The variable remuneration is determined by taking into account qualitative criteria which include each Employee's compliance with SNIF's Code of Conduct, policies and procedures as well the standards which govern the relation with clients, his/her job description, his/her service seniority, skills and knowledge.

The following criteria should be taken into account:

- Knowledge & Skills
- Learning attitude
- Risk governance
- Policies, processes & procedures follow up
- Leadership
- Accountability
- Communication internally and externally
- Adequate risk orientation
- Adequate Performance management
- Challenge of Management
- Strategy & objectives follow up
- Values & ethics follow up
- Interaction with other teams
- Risk competence
- Motivation

The total variable remuneration is subject to the approval of SNS at the end of each financial year and before SNIF makes any payment.

**It is not guaranteed and is not contractually due, except as otherwise allowed by the CSSF.** If applicable, variable remuneration is paid on bank account during the first quarter of SNIF's following financial year. The allocated variable remuneration is payable to the concerned employee under employment contract as at 31st March of the relevant period.

No discretionary pension benefits will be paid.

## 4.2 Board of Directors

### 4.2.1 Exclusion

**The Board of Directors** may comprise members of the Management Committee, Independent Directors and other Directors from SNS or its group companies (hereafter, the “Group Directors”). The following persons have been considered as out of scope of the Policy:

- Independent Directors; and
- Group Directors.

### 4.2.2 Remuneration of the Board of Directors and Management Committee

The variable remuneration of the members of the Board of Directors and members of the Management Committee not excluded pursuant to section 4.2.1, which may be set or approved by SNS depending on the criteria set forth by SNS, is based on qualitative criteria. In particular, the following items are taken into consideration:

- supervision for expenditure planning in relation with salaries and global expenses;
- evaluation on non-financial matters (such as the number of operational errors, number of regulatory penalties, number of significant complaints from clients);
- status of new system establishment or existing controls enhancement and human resources developments;
- soundness of finance and tax practice; and
- collaboration status with SNS or its group companies

Focus is made on qualitative criteria aiming at ensuring that a) SNIF complies with all policies and procedures as well as the regulatory requirements, b) a sound management is in place, and) no excessive risks are being taken without their knowledge.

The variable remuneration is at the discretion of the company, or SNS if SNS’ approval is required, and not contractually guaranteed, except as otherwise allowed by the CSSF and according to the limits set by this policy.

### 4.2.3 Remuneration of Independent Directors

No variable remuneration but a fixed directors’ fee may be paid to Independent Directors, to maintain them out of scope of the Policy.

### 4.2.4 Remuneration of Group Directors

Group Directors are not paid a director’s fee nor do they receive a fixed or variable remuneration from SNIF. They are *ipso facto* out of scope of this Policy.

### 4.2.5 Remuneration of Japanese Delegates

For the Japanese Delegates (including those not members of the Board of Directors), the appraisal shall be made in Japan under Japanese regulations. The variable remunerations are at the discretion of SNS and not guaranteed, but must comply with the guidelines of this Remuneration Policy. The payment of variable remunerations are made by SNS and then reimbursed by SNIF.

The factor used to grant variable remunerations by SNS for Japanese Delegates is as follows:

- A bonus reserve linked to SNS previous year(s) overall financial results is done by SNS.

- This bonus reserve is used for distribution among employees of SNS the number of which is disclosed in the SNS's website as a variable remuneration (<http://www.smbcnikko.co.jp/en/profile/overview/index.html>). .
- The variable remuneration of Japanese Delegates is determined by SNS at the end of each financial year.

Considering the above, there is no material interest for the Japanese Delegates employed at SNIF to encourage risk taking in SNIF's business activity.

The variable remuneration of Japanese Delegate who is also the Identified Staff must be approved by the Board of Directors.

### **4.3 Internal Audit**

Internal audit is outsourced. SNIF should ensure that the entity to which the internal audit has been delegated:

- 1) are subject to regulatory requirements on remuneration that are equally as effective as those under SNIF, or;
- 2) has appropriate contractual arrangements being entered into to ensure that there is no circumvention of the remuneration rules with respect to payments to Identified Staff within the delegate.

## **5 Accrued bonuses**

A reserve for bonuses is set for payment to Employees based on an annual budget, which is prepared and approved by the Board of Directors and SNS at the beginning of SNIF's financial year.

## **6 Audit**

The Board of Directors of SNIF and the Head of Human Resources Department of SNBL, to which the daily operations of human resources at SNIF are outsourced, shall provide the external auditors with sufficient information about the remuneration of Employees of SNIF in order for them to carry out their annual review of the application of the Policy without revealing details of actual remuneration of specifically named Employees.

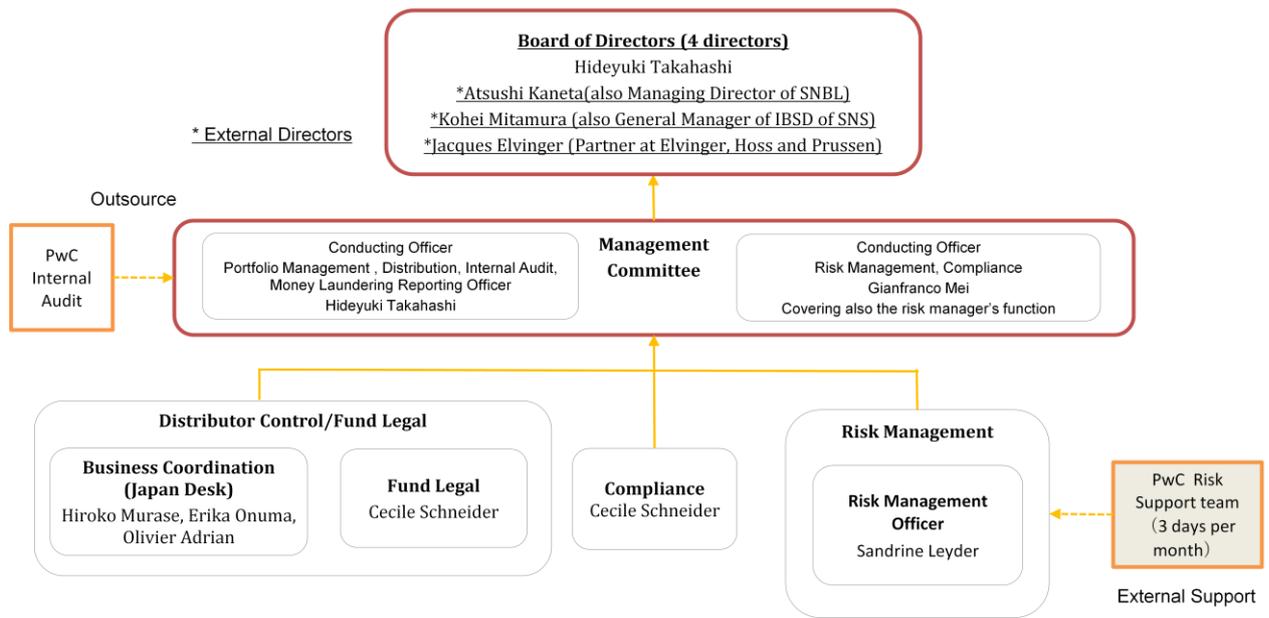
## **7 Pay bracket of EUR 1 million**

SNIF does not have any employee in a pay bracket of EUR 1 million. SNIF is aware that, if such individual would be employed, it needs to disclose such information immediately to the CSSF including the number of individuals, the business area involved and the main elements of the fixed and variable remuneration.

## **8 Appendix**

Appendix A – Organization Chart of the Company

Total number of onsite employees: 7



# INDUCEMENT POLICY

## 1 Presentation

SNIF has to maintain an adequate inducement policy and to permanently comply with such policy in order to ensure a proper performance of its activities.

An inducement is any fee, commission or non-monetary benefit paid or provided to or by SNIF for investment management or ancillary services to the funds managed by SNIF (the “Fund(s)”).

The purpose of this document is to detail SNIF arrangements in relation to inducements, which is applied to the Funds.

## 2 Procedures in place

SNIF is not regarded as acting honestly, fairly and professionally in accordance with the best interests of the Funds it manages or the investors in these Funds if, in relation to the activities performed when carrying out its functions, it pays or is paid any fee or commission, or provides or is provided with any non-monetary benefit, other than the following:

- a) a fee, commission or non-monetary benefit paid or provided to or by the Fund or a person on behalf of the Fund;
- b) a fee, commission or non-monetary benefit paid or provided to or by a third party or a person acting on behalf of a third party, where the following conditions are satisfied:
  - i) the existence, nature and amount of the fee, commission or benefit, or, where the amount cannot be ascertained, the method of calculating that amount is clearly disclosed to the Fund in a manner that is comprehensive, accurate and understandable, prior to the provision of the relevant service;
  - ii) the payment of the fee or commission, or the provision of the non-monetary benefit is designed to enhance the quality of the relevant service and not impair compliance with SNIF’s duty to act in the best interests of the Fund it manages or the investors in the Fund;
- c) proper fees which enable or are necessary for the provision of the relevant service, including custody costs, settlement and exchange fees, regulatory levies or legal fees, and which, by their nature, cannot give rise to conflicts with SNIF’s duties to act honestly, fairly and professionally in accordance with the best interests of the Fund it manages or the investors in the Fund.

SNIF, for the purposes of point b) i) above, may disclose the essential terms of the arrangements relating to the fee, commission or non-monetary benefit in summary form, provided that SNIF undertakes to disclose further details at the request of the investor of the Fund it manages and provided that it honours that undertaking.

**Fees received or paid by SNIF which do not meet the above-mentioned criteria are prohibited.**

**Furthermore, the following procedures have to be respected:**

- “Gift/benefit declaration” forms must be submitted for approval to compliance department.

- Third-party service contracts shall contain fee disclosures and suitable agreements.
- SNIF is permitted to disclose fees in a summary form provided it discloses further details at the specific request of the investor.

Compliance with SNIF's policies and procedures and with regulatory requirements is the responsibility of all relevant persons.

All investment business fees charged by SNIF are fully disclosed to the unit holders of the Funds in the offering documents related to such Fund.

Disclosures shall be made before the service is provided.