Pzena Investment Management Europe, LTD

REMUNERATION POLICY

Date: 27 September 2022

Pzena Investment Management Europe

Remuneration Policy

Policy Owner
Name: **Aengus Galloway**

Function: **Head of Compliance**

Review frequency: **At least annually**

Status: **Final**

1. Objective and scope of the Policy

Pzena Investment Management Europe Ltd (the "Company") has designed and implemented this remuneration policy (the "Remuneration Policy") in line with the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011, as amended, consolidated or replaced from time to time (the "UCITS Regulations") and Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and Amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID II)(collectively the "Regulations"). This Remuneration Policy has also been drafted in accordance with the European Securities Markets Authority ("ESMA") Guidelines on Sound Remuneration Policies under the UCITS Directive (ESMA/2016/575) and the questions and answers documents produced by ESMA (the "ESMA Guidelines") (the Regulations and the ESMA Guidelines, collectively, the "Remuneration Requirements"). Further, consideration has been given to the requirements as outlined in Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (the "SFDR Requirements").

This Remuneration Policy has been prepared in line with the business strategy, objectives, values, and interests of the Company, the separately managed accounts and UCITS funds under the Company's management (together the "Funds"), and the investors of the Funds and ensures that the Company maintains and applies a sound and prudent remuneration practice. This process has been designed to identify and manage any conflicts of interest, to promote sound and effective risk management, to prevent impairment of compliance with the Company's duty to act in the best interest of the Funds, and to discourage taking risks that are inconsistent with the risk profile of the Company or the risk profiles and constitutional documents of the Funds.

This Remuneration Policy has been adopted by the board of directors of the Company (the "**Board**") and will be reviewed at least on an annual basis and more frequently in the event of relevant changes to the Remuneration Requirements and/or to the business activities of the Company.

2. Definition of remuneration

For the purposes of this Remuneration Policy, remuneration consists of:

- all forms of payments or benefits paid by the Company;
- any amount paid by a Fund itself, including carried interest (e.g. performance fees); and
- any transfer of units or shares of a Fund, in exchange for professional services rendered by the Identified Staff (as defined below).

All remuneration can be divided into:

- fixed remuneration (payments or benefits without consideration of any performance criteria); and
- variable remuneration (additional payments or benefits depending on performance or, in certain cases, other contractual criteria).

Both components of remuneration (fixed and variable) may include monetary payments or benefits (such as cash, shares, share options, cancellation of loans to staff members at dismissal, or pension contributions) or non-monetary benefits (such as discounts, fringe benefits or special allowances for car, mobile phone, etc.).

Ancillary payments or benefits that are part of a general, non-discretionary, Company-wide policy and which pose no incentive effects in terms of risk assumption are excluded from the definition of remuneration.

The Company ensures that variable remuneration is not paid through vehicles or methods that facilitate the avoidance of the Remuneration Requirements and the Board of the Company retains the primary responsibility for ensuring that the ultimate goal of having a sound and prudent remuneration policy and structure is not improperly circumvented.

3. Definition of Identified Staff

This Remuneration Policy covers all staff whose professional activities have a material impact on the risk profile of the Company or of the Funds ("Identified Staff"). Under the ESMA Guidelines, Identified Staff are classified as categories of staff, including senior management, risk takers, control functions and any employee receiving total remuneration that falls into the remuneration bracket of senior management and risk takers, whose professional activities have a material impact on the Company's risk profile or the risk profiles of the Funds.

The ESMA Guidelines provide further detailed guidance regarding the classification of Identified Staff. On the basis of same, the Company has determined the following persons to be Identified Staff of the Company for the purposes of this Remuneration Policy:

- Head of Office
- Designated Persons
- Head of Risk
- Head of Compliance
- Directors of the Company

All Identified Staff of the Company, other than the directors, are remunerated as employees of the Company with a combination of fixed and variable discretionary remuneration, where the latter is assessed on the basis of their overall individual contribution to the Company with reference to both financial and non-financial criteria and not directly linked to the performance of specific business units or targets reached or the performance of the Funds.

The ESMA Guidelines also extend the concept of 'Identified Staff' to categories of staff of the entity to which investment management activities have been delegated by the Company (i.e., Pzena Investment Management LLC, "PIM LLC") and whose professional activities have a material impact on the risk profiles of the Funds. Again, all Identified Staff within PIM LLC are remunerated as employees of PIM LLC with a combination of fixed and variable discretionary remuneration, where the latter is assessed on the basis of their overall individual contribution to PIM LLC, with reference to both financial and non-financial criteria and not directly linked to the performance of specific business units or targets reached or the performance of the Funds.

Any performance-related payment is assessed by Pzena's executive management in the context of longer term, multi-year performance and designed to not encourage short-term risk taking. Further, the investment and risk setting exercises of the Company occur in a collective collegiate framework, which prevents any one Identified Staff exerting an inappropriate influence over the risk appetite and investment profile of the Funds.

Although the performance of the Funds could ultimately affect the performance of the Company because of its business model (the Company earns a basis point fee from the Funds), the activities of the Identified Staff have no significant direct bearing on the performance capabilities of the Funds and the performance of the Funds does not directly impact the remuneration of the Identified Staff.

The Board comprises Maurice Murphy, Azar Sharipov and Geoff Bauer. Mr Murphy is an independent director and his remuneration as director and chairman of the Company is fixed and it does not contain a variable component. Further, Mr Sharipov and Mr Bauer are not separately remunerated for their roles as directors of the Company.

4. The principles affecting pay structure and risk alignment

The Regulations require the Company to comply with a detailed list of principles when establishing and maintaining its remuneration policies and practices.

The Company has implemented a remuneration structure in order to identify and manage any conflicts of interest, to promote sound and effective risk management, to prevent impairment of compliance with the Company's duty to act in the best interest of the Funds, and to discourage taking risks that are inconsistent with the risk profile of the Company or the risk profiles and constitutional documents of the Funds. Further, the Company has implemented a remuneration structure whereby, based on the nature, scale and complexity of the Company, the fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration. Further, as any variable remuneration portion is fully discretionary, the Company retains full flexibility in the operation of the flexible remuneration component as it has the possibility to award no variable pay. This means that any variable remuneration is paid only if it is sustainable according to the financial situation of the Company, and justified according to the performance of the Funds and Company, together with the overall performance of the Company and the individual concerned. Where there is subdued or negative performance of the Company, the award of any variable remuneration will consider the current total compensation of the individual and his/her contribution to the Company as a whole.

The Company does not offer guaranteed variable remuneration to any employees or directors. The Company is mindful that, should it in future offer guaranteed variable remuneration, this may only be exceptional, occurring only in the context of hiring new staff and limited to the first year.

The Company's remuneration framework does not currently provide for payments related to the early termination of a contract. If such payments are provided in future, the Company is mindful that such arrangements must be designed to reflect performance achieved over time and in a way that does not reward failure.

5. Proportionality

Noting the foregoing and taking into consideration the risk profile, risk appetite and risk strategy of the Company and of the Funds, together with a non-exhaustive combination of its size, internal organisation, and the nature, scope and complexity of its activities, together with any other relevant criteria and within the limits of the ESMA Guidelines, and noting in particular the non-complex investment strategies employed in respect of the Funds, the AuM of the Company, the structure of the Company, the number of staff within the Company, the clear reporting lines that are in place within the Company and the fact that neither it, nor its Funds, are listed, the Board has determined to dis-apply certain of the Remuneration Requirements, including the following:

- variable remuneration in instruments;
- retention;
- deferral; and
- ex post incorporation of risk for variable remuneration,

(together, the "Pay-out Rules").

With regard to the ESMA UCITS Guidelines, the Board notes that these guidelines do not offer any guidance as to whether the application of the proportionality principle may enable management companies such as the Company to dis-apply the specific requirements above. However, in a letter to the European Union, ESMA set out its view that it should be possible to dis-apply at least the Pay-out Rules under specific circumstances and that it should also be possible to apply lower thresholds whenever minimum quantitative thresholds are set for the Pay-Out Rules. In the absence of legislative amendment at the European level, or clarification at member state level, the Company has made its own assessment as to the application of the proportionality principle and in doing so has deemed it appropriate to have regard to ESMA's views in the ESMA letter addressing the circumstances in which the principle of proportionality may be relied upon.

This determination to disapply the Pay-out Rules will be reviewed regularly by the Board and at a minimum on an annual basis as part of the overall Remuneration Policy review.

The Board has also determined not to establish a remuneration committee (see section 7 below).

Further, and without prejudice to the foregoing, in light of the limited impact of the remuneration of the Identified Staff on the risk profile of the Funds and the nature of the business of the Company in its role as a management company, amongst other proportionality principles, the Company believes that it is not appropriate to mandate for any variable remuneration that is offered to Identified Staff to comprise units or shares of the Funds or equivalent ownership interests. Similarly, the Company does not deem appropriate that the deferral of the variable remuneration should be implemented in view of the life cycle and redemption policy of the Funds, as the variable remuneration components are not based on the performance of the Funds and therefore there is no risk of misalignment with the nature of the risks of the Funds.

Where Identified Staff also receive pension benefit arrangements, these arrangements will be in line with the Company's risk appetite, business strategy, objectives, values and long-term interests, including those of the Funds or the investors of such Funds.

6. MiFID II Remuneration Considerations

To protect consumers, it is appropriate to ensure that the Company does not remunerate or assess the performance of their own staff in a way that conflicts with the Company's duty to act in the best interests of its clients. This includes setting remuneration and/or sales targets, which provide an incentive for recommending or selling a particular financial instrument when another product may better meet the client's needs.

This Policy is intended to encourage responsible business conduct, fair treatment of clients as well as avoiding conflict of interest in the relationships with clients.

The Company will take all appropriate steps to identify and then prevent or manage conflicts of interest between itself, including its managers, employees, or any person directly or indirectly linked to them by control and its clients. This also applies to conflicts of interest between one client and another that arise in the course of providing any investment and ancillary services, or combinations thereof, including those caused by the receipt of inducements from third parties or by the Company's own remuneration and other incentive structures.

The Company shall not receive any remuneration, discount or non-monetary benefit for routing client orders to a particular trading or execution venue, which would infringe the requirements on conflicts of interest or inducements set out in paragraph 1 no MiFID II Article 27 and Articles 23 and 24.

7. Remuneration Committee

The Company is mindful of the requirement that management companies, which are significant in terms of their size or the size of the funds they manage, their internal organisation and the nature, the scope and the complexity of their activities must establish a remuneration committee responsible for the preparation of decisions regarding remuneration, including those which have implications for the risk and risk management of the Company or the Funds and which are to be taken by the Board in its supervisory function. In this regard, noting the contents of section 5 of this Policy, the Board has determined in light of the size of the Company and of the Funds and the nature scale and complexity of its operations that a remuneration committee is not required.

8. Disclosure

The Company will disclose details of its remuneration arrangements through a periodic disclosure in the annual report of the Company and as part of the public disclosure in the financial statements of the Funds. The Company will ensure that the disclosure is clear, easily understandable and accessible. Without prejudice to confidentiality and applicable data protection legislation, the Company will also disclose detailed information regarding its remuneration policies and practices for members of staff whose professional activities have a material impact on the risk profile of the Funds, as well as providing general information about the basic characteristics of the Company's remuneration policies and practices in line with the Remuneration Requirements. A copy of the Remuneration Policy will also be made available on https://www.pzena.com. The prospectus and key investor information document(s) for each Fund, where applicable, shall also contain the disclosures required under the Remuneration Requirements.

9. Delegation of Portfolio Management

When delegating portfolio management activities according to the Regulations, the Company will ensure that:

- the entity to which portfolio management activities have been delegated is subject to regulatory requirements on remuneration that are equally as effective as those applicable under the ESMA Guidelines; or

- as is more relevant for the Company, appropriate contractual arrangements are put in place with the entity to which investment management activities have been delegated (i.e., PIM LLC), in order to ensure that there is no circumvention of the remuneration rules set out in the ESMA Guidelines. These contractual arrangements cover any payments made to the delegates' Identified Staff as compensation for the performance of portfolio management activities on behalf of the Company and the Funds under the terms of the relevant delegation agreement.

The Board requires the delegate to regularly provide them with a confirmation that its remuneration policies and practices have not changed over time and no breaches of the remuneration policy have occurred.

10. SFDR Requirements

As per Article 5 of SFDR, financial market participants (such as the Company) are required to include in their remuneration policies information on how those policies are consistent with the integration of sustainability risks and to publish that information on their websites.

As outlined previously, all Identified Staff other than the directors are remunerated as employees of the Company with a combination of fixed and variable discretionary remuneration and the performance of the Funds, from a financial and/or a sustainability perspective, does not directly impact the remuneration of the Identified Staff. Further, the variable component of remuneration is assessed on the basis of the individual's overall contribution to the Company with reference to both financial and non-financial criteria (which may include goals and/or an assessment related to people, culture and whether the individual has complied with the Company's sustainability policies). In addition, variable remuneration is paid only if it is sustainable according to the financial situation of the Company, and justified according to the performance of the Funds and Company, together with the overall performance of the Company and the individual concerned.

As noted above, the Company delegates all portfolio management activity to a suitably qualified investment manager, PIM LLC. Where delegated, the investment manager shall ensure that it adopts remuneration policies and procedures that are consistent with the integration of sustainability risks into its investment decision-making processes. The Company shall seek periodic confirmations from the investment manager that these policies are being complied with, that the remuneration structures are not encouraging excessive risk-taking with respect to, *inter alia*, sustainability risks, and that remuneration is limited to risk adjusted performance.

In light of the foregoing, including the nature of the business of the Company, the fact that it has delegated the investment management activity, which includes the investment decision making processes employed, in respect of all Funds to PIM LLC, and the fact that the performance of the Funds, from a financial and/or a sustainability perspective, and the way in which sustainability risks are integrated into the investment decision making processes in respect of the Funds, do not directly impact upon the remuneration of the Identified Staff, the Company believes that its remuneration practices are not inconsistent with the integration of sustainability risks into its or its Funds' investment processes and that there is no risk of misalignment between the remuneration practices of the Company and the integration of sustainability risks into the investment decision making processes of the Company and/or PIM LLC in respect of the Funds.

For further information in relation to the sustainability approach of the Company and PIM LLC, please see https://www.pzena.com

11. Review and Implementation of the Policy

The Remuneration Policy has been adopted by the Board, which is responsible for its implementation. The Remuneration Policy is subject to at least annual review by the Board. The Remuneration Policy is not subject to an independent external review.

The day-to-day implementation of the Remuneration Policy has been assigned to the Head of Compliance who is responsible for keeping the Remuneration Policy up to date in light of business and staff changes and in line with applicable regulatory requirements. The Head of Compliance is also responsible for the ongoing monitoring of the implementation of and compliance with the Remuneration Policy and, in this regard, the Head of Compliance will liaise with the Company's Human Resource function, as and when required.