

## CAYENNE ASSET MANAGEMENT LIMITED REMUNERATION POLICY STATEMENT

Given its size and nature, Cayenne Asset Management Limited (the "Firm") considers that it does not need to maintain a separate risk management function. Remuneration of the senior officer in risk management and compliance functions is directly overseen by the board of directors.

Our Control Function (our Compliance Officer and Money Laundering Reporting Officer) is also responsible for Operations, Trading and Marketing which could potentially result in conflicts of interests, however we believe that these arrangements are proportionate having regard to the scale and lack of complexity of our business.

### **General Requirements**

The Firm is required to establish implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management.

This policy covers all aspects of your remuneration and is subject to the Firm's general organisation requirements under the FSA's systems and control requirements.

Due to the size, nature and lack of complexity of the Firm, we do not regard it as proportionate to establish a remuneration committee, but this will be reviewed in the event of a material change to the Firm. This policy has been approved by the board of directors which includes the following persons:

Len Gayler

Rita Gayler

John Murrell

Peter Fiddimore

The firm is a BIPRU 50 K Limited Licence Firm which manages the portfolios of offshore and onshore regulated collective investment schemes and a managed account (the "Clients").

The Firm provides investment management service to the Clients, who have approximately £100 million assets under management (AUM) and does not seek to have a significant influence on the market.

The Firm seeks to avoid creating any incentive for individuals to take any inappropriate risk and in general all decisions are confirmed by the Senior Management Team.

### **1. Risk Management and Risk Tolerance (Firm Wide)**

**"(a) the remuneration policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the firm."**

It is the firm's policy to promote sound and effective risk management and to discourage risk-taking that exceeds the level of tolerated risk of the firm;

As such the firm maintains:

- 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 fund's portfolio, with independent oversight provided by the fund's 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 firm 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 Firm's risk management and remuneration policy.

The Firm does not wish to manage portfolios which become systemically important as this brings with it additional risks that the firm would not be in a position to manage as their determination is outside the control of the firm.

As this is part of the Firm's investment strategy, the firm does not wish to 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 Firm wishes to align its remuneration policies with its risk profile which attempts to be diversified against the market.

## **2. Supporting business strategy (Firm Wide)**

**“(b) the remuneration policy is in line with the business strategy, objectives, values and long-term interests of the firm, and incorporates measures to avoid conflicts of interest”**

The remuneration policy is in line with the business strategy, objectives, values and long-term interests of the Firm and its investors:

The Firm'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 Firm 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 Firm 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 Firm is required to attract appropriate talent which creates a balance of people who take risk and those who can manage it. As such the Firm 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 Firm needs to manage its fixed costs against this background and ensure that its variable costs are only payable once actual performance targets are achieved.

### **3. Conflicts of interest (Firm Wide)**

The Firm considers all conflicts within its conflicts of interest policy and process. This requires the Firm to review potential conflicts of interest on a regular basis.

Conflicts of interest involve a failure by the Firm to act in the best interests of its Client and will typically involve a material risk of damage to the interests of that Client. Either the Firm (and connected persons or other members of the Firm's group) 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 Firm 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 Firm ensures fair treatment of clients by having an allocation policy and ensuring that it adheres to that policy.

Investment Opportunities are allocated in line with the allocation policy.

The Firm has aligned its interests with the interest of its Clients in that Senior Management are also investors in two of the funds.

The Firm has aligned its interests with the interest of its Clients by the operation of this policy. Remuneration is designed to ensure return is achieved in line with risk management. The long

*term objectives of the Firm and the Clients are to achieve absolute return throughout the life time of the funds. Therefore the objective of long term return aligns interests of both parties.*

*The Firm operates a high water mark to ensure such long term alignment.*

*The Firm has a gifts and inducement policy to ensure that no undue influence is brought to bear on the trade allocation process.*

Governance (Firm Wide)

**“(c) the governing body in its supervisory function of the firm adopts and periodically reviews the general principles of the remuneration policy and is responsible for its implementation;**

**“(d) the implementation of the remuneration policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the management body in its supervisory function”**

These principles have been agreed by the Senior Management in line with principle 1 and 2 and as such are agreed.

The Firm 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.

#### **4. Control Function Independence (Firm Wide)**

**“(e) staff members engaged in control functions are independent from the business units they oversee, have appropriate authority, and are compensated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control”**

This policy and its implementation will be reviewed by Senior Management.

Due to the size, nature and complexity of the firm, it is not appropriate to have a separate independent body with a purpose of overseeing the implementation of its remuneration policy.

Senior Management agree with individuals the nature of their reward structures when they are hired and this is subject to on-going review.

Due to the size of the business, some control functions are undertaken by one of the persons involved in investment business.

The Firm has 4 investment managers.

The Firm has 1 person working in control functions. A proportion of our control function is undertaken by entities appointed by the Firm’s Board and the Clients’ Fund’ Trustees who are independent of the Firm. As such the internal resources dedicated to control functions are involved in the oversight of activities which are already being undertaken by independent entities. Those entities are identified in the Firm’s outsourcing policy but include:

External Book-Keeping  
Independent External Auditors  
Fund Appointed Administrators (External Middle Office)  
Fund Appointed External Auditors  
External Compliance Consultants  
Independent IT Service Providers

Any issues which arise as result of the overlap of responsibilities or a conflict of interest can be raised to the board of directors for determination. The Firm has its policies and procedures reviewed by external consultants on a regular basis to determine whether any conflicts exist and reviews its own conflicts policies on a regular basis.

### **Compliance and Risk**

**“(f) the remuneration of the senior officers in the risk management and compliance functions is directly overseen by the remuneration committee”**

The Firm’s Compliance Officer has drafted this policy for the consideration of the Board of Directors. The Board of Directors has reviewed this policy and confirmed its implementation and that it also applies to the senior officer 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 of Directors 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 firm aims to restrict the distribution of such information as much as possible and in line with this policy and requirements.

The Board of Directors determines semi-annual awards following year end staff performance appraisals. Remuneration considerations that result from performance appraisals are based on either independently agreed position of or, in the case of one of the Clients, the post audit position of the investment fund.

## **5. Remuneration and Capital (Firm Wide)**

**“(i) the total variable remuneration does not limit the ability of the firm to strengthen its capital base”**

The measurement of performance used to calculate bonuses or bonus pools includes an adjustment for current and future risks and takes into account the cost of the capital and the liquidity required.

The firm is a BIPRU 50K Limited Licence firm which undertakes an annual risk assessment, and Internal Capital Adequacy Assessment Process, reporting to the FSA on its capital position.

The firm awards discretionary bonuses only after the increase in value of its Client funds have been agreed by the external administrators and the increase in value has been determined.

The Firm ensures that variable remuneration is only paid to employees after the firm 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 Firm and stress and scenario testing.

## **6. Exceptional Government Intervention (N/a)**

The Firm has not received any monetary government intervention.

## **7. Profit Based Measurement and Ex-Ante Risk Adjustment (Firm Wide)**

**“(g) where remuneration is performance related, the total amount of remuneration is based on a combination of the assessment of the performance of the individual and of the business unit concerned and of the overall results of the Firm and when assessing individual performance, financial as well as non-financial criteria are taken into account.”**

The Firm’s ability to pay bonuses is based on the performance of the funds.

Individuals are rewarded based on their contribution to the overall strategy.

- Investment Generation
- Investment Trading
- Sales & Marketing
- Operations

**“(i) Fixed and variable components of total remuneration are appropriately balanced; the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy, on variable remuneration components, including the possibility to pay no variable remuneration component. Institutions should set the appropriate ratios between the fixed and the variable component of the total remuneration. The Committee of European Banking Supervisors shall ensure the existence of guidelines to set specific criteria to determine the appropriate ratios between the fixed and the variable component of the total remuneration”**

The general application of this requirement has been neutralised because the firm is a limited licence firm which is not part of a group in a higher proportionality tier.

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 person. Salaries are reviewed at least annually; however salary is taken into account when allocating any variable component of remuneration to ensure that the total compensation of each individual is within the limits expressed in this policy. In deciding each individual’s total compensation due regard is taken of an appropriate balance between fixed and variable remuneration. Therefore due to the nature of performance, performance sets the proportion of remuneration as it is based.

When the firm delivers excess returns to the investor in terms of increased performance, the firm is allowed to receive variable remuneration in line with the agreed policy and procedures.

**“(m) payments related to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure.”**

The same principles apply to early termination of an employment contract and due regard is taken of actual realised profits contributed by any leaver.

**“(n) the measurement of performance used to calculate variable remuneration components or pools of variable remuneration components includes an adjustment for all types of current and future risks and takes into account the cost of the capital and the liquidity required.**

**The allocation of the variable remuneration components within the firm shall also take into account all types of current and potential risks”**

Remuneration based on performance is discussed upfront with individuals and is in line with both the investors’ requirements and firm’s requirements in terms of both current and potential risks. This aligns the risk profile appropriately. The firm also operates a high water mark.

- The firm takes a group approach to rewarding transactions because its philosophy is to ensure that the portfolio return is managed on a group basis. All decisions are ultimately taken and reviewed by the investment managers once the portfolio has been stress tested.

## **8. Pension Policy**

**“(s) the pension policy is in line with the business strategy, objectives, values and long-term interests of the credit institution. If the employee leaves the credit institution before retirement, discretionary pension benefits should be held by the credit institution for a period of five years in the form of instruments as defined in point (o). In case of an employee reaching retirement, discretionary pension benefits should be paid to the employee in the form of instruments defined in point (o) subject to a five year retention period”**

Pension contributions are a fixed percentage of basic salary to the employees’ individual pension schemes. The Firm does not operate a company pension scheme.

## **9. Personal Investment Strategies**

**“(t) staff members are required to undertake not to use personal hedging strategies or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements;**

All personal trading undertaken will be reviewed on an on-going basis to ensure compliance.

## **10. Avoidance of the Remuneration Code**

**“(u) variable remuneration is not paid through vehicles or methods that facilitate the avoidance of the requirements of this Directive.”**

The Firm will not pay remuneration through any vehicles or methods that will facilitate the avoidance of the code or policy.

## **11. Remuneration Structures**

### **Ownership Linked Remuneration (Neutralisation available for tier 3, and assumed for tier 4 firms)**

**“(o) a substantial portion, which is at least 50 % of any variable remuneration shall consist of an appropriate balance of:**

**(i) shares or equivalent ownership interests, subject to the legal structure of the credit institution concerned or share-linked instruments or equivalent non-cash instruments, in case of a non-listed credit institution, and**

**(ii) where appropriate, other instruments within the meaning of Article 66 paragraph 1a point a)<sup>1</sup>, where applicable that adequately reflect the credit quality of the credit institution on an on-going concern.**

**These instruments are subject to an appropriate retention policy designed to align incentives with the longer-term interests of the credit institution.**

**Member States or their competent authorities may place restrictions on the types and designs of these instruments or ban certain instruments as appropriate. This point shall be applied to both the portion of the variable remuneration component deferred in line with point (i) and the portion of the variable remuneration component not deferred.”**

This provision has been neutralised on the basis that the Firm is a limited licence firm in proportionality tier 4, and it has the characteristics which allow it to do so.

### **Deferral (Neutralisation available for tier 3 and assumed for tier 4)**

**“(h) the assessment of the performance is set in a multi-year framework in order to ensure that the assessment process is based on longer term performance and that the**

---

<sup>1</sup> This refers to instruments to be included in Stage B1 of the financial resources table

**actual payment of performance-based components of remuneration is spread over a period which takes account of the underlying business cycle of the credit institution and its business risks;**

**(q) a substantial portion, which is at least 40 % of the variable remuneration component is deferred over a period which is not less than three to five years and is correctly aligned with the nature of the business, its risks and the activities of the member of staff in question. Remuneration payable under deferral arrangements vests no faster than on a pro-rata basis. In the case of a variable remuneration component of a particularly high amount, at least 60 % of the amount is deferred. The length of the deferral period is established in accordance with the business cycle, the nature of the business, its risks and the activities of the member of staff in question;**

This provision has been neutralised on the basis that the Firm is a limited licence firm in proportionality tier 4, and it has the characteristics which allow it to do so.

#### **Guaranteed Variable Remuneration (Individual proportionality available i.e. if below thresholds)**

The Firm will not award, pay or provide guaranteed variable remuneration.

#### **Ratios between fixed and variable components of total remuneration. (Neutralisation available for limited license firms in tier 3 and assumed for tier 4)**

This provision has been neutralised on the basis that the firm is a limited licence firm in proportionality tier 4.

#### **Remuneration structures- payments related to early termination (Firm Wide)**

The Firm will ensure that payments related to early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure. Existing contractual payments in relation to the termination of employment have been reviewed to ensure they are consistent with the Remuneration Code general requirements.

## **Breaches of this policy**

Voiding and recovery will not be applicable to Code staff whose Variable Remuneration is no more than 33% of total remuneration and where total remuneration is no more than £500,000.

Any provision of any agreement that contravenes a prohibition on persons being remunerated in a way specified in a rule to which the annex applies ("a contravening provision") will be void.

### Application

- Restrictions on Guaranteed Remuneration (Cannot be neutralised)
- Replacing payments recovered or property transferred (Cannot be neutralised.)

**Annex A: Remuneration Code Staff**

In accordance with SYSC 19A.3.5.R(1), the following is a record of the Remuneration Code Staff of Cayenne Asset Management Limited (the " Firm").

Name	Position / Title	Date
Len Gayler	MD, CF1, CF3, CF10 and CF11	June 2011
Rita Gayler	CF2	June 2011
Peter Fiddimore	CF2	June 2011
John Murrell	CF2	June 2011

This should be reviewed annually.