# Polar Capital Group

## Basel II Pillar 3 & Remuneration Code Disclosure Document

## 2021

# Polar Capital
# Pillar 3

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## Disclaimer

This document has been prepared by Polar Capital Holdings plc (the "Group"/ "Polar Capital") in accordance with the requirements of the Capital Requirement Directive.

Unless otherwise stated, all figures are as at 31 March 2021, our financial year-end. These disclosures have been reviewed by the Group's Audit Committee and Board. The disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Group's Annual Report and Accounts. Reliance should not be placed on these disclosures as to the operation or failure to operate correctly any internal controls to detect any fraud or misappropriation of any assets which may occur. The risks identified and reported are not all the risks which the Group faces. An ISAE 3402 report has been prepared which provides a more extensive analysis of the controls which operated during the financial year to 31 March 2021 and their effectiveness. Global Investments Performance Standards ("GIPS") verification reports are available for every calendar year since 2009 confirming the Group's compliance with all the processes, procedures and composite construction requirements of GIPS. The latest calendar year report available is as at 31 December 2020. Although we endeavour to provide accurate and timely information, there is no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in future.

This disclosure is published on the Polar Capital group's website (www.polarcapital.co.uk) and is also available by writing to the Global Chief Compliance Officer, Polar Capital, 16 Palace Street, London SW1E 5JD or email polar.compliance@polarcapital.co.uk.

# 1. Capital Requirements Overview

This document sets out the Pillar 3 disclosures on risk management and capital adequacy for Polar Capital Holdings plc, together with its direct and indirect subsidiaries, ("Group") as at 31 March 2021.

In 2007, the Capital Requirements Directive[1] ("CRD") came into effect as the common framework for implementing the Basel II framework in EU. The CRD is built on three pillars:

**Pillar 1** is the base capital requirement and is determined by the size and nature of the company. The FCA's Prudential Sourcebook for Banks, Building Societies, and Investment Firms ("BIPRU") provides that firms, like Polar Capital LLP, that do not have permission to deal in investments on their own account or do not underwrite or place financial instruments on a firm commitment basis are limited licence firms subject to a minimum base capital requirement of €50k. However, on an unconsolidated basis, under GENPRU 2.1.48 a firm subject to BIPRU that is a CPMI should consider €125k as its base capital requirement. If our calculated Pillar 1 capital exceeds this figure then this will be the base capital requirement to be held by the company.

**Pillar 1** capital comprises the higher of:

- A base capital requirement (€125k); or
- The sum of the credit risk capital requirement and market risk capital requirement; or
- The fixed overheads requirement ("FOR").

**Pillar 2** is the level of capital the Group considers adequate to cover all of the risks to which it is exposed within the context of the risk management framework and this is carried out through the Internal Capital Adequacy Assessment Process ("ICAAP"). It is the Group's responsibility to produce the ICAAP and this forms a key input into the FCA's supervisory review process.

**Pillar 3** is the disclosure element of the Capital Requirements Directive ("CRD"). Pillar 3 complements Pillars 1 and 2 and improves market discipline by requiring firms to disclose information on their capital resources and requirements, risk exposures and their risk management framework.

# 2. Basis of Disclosure

The Pillar 3 disclosure for the Group is set out below as required by the FCA's "Prudential Sourcebook for Banks, Building Societies and Investment Firms" (BIPRU) specifically BIPRU 11.3.3 R. As at 31 March 2021 the Group had one subsidiary, Polar Capital LLP (the "firm") registered with and regulated by the FCA. The Group is required to produce a consolidated return to assess its capital resources and capital requirements.

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[1] Polar Capital is subject to the Capital Requirements Directive III. Polar Capital is not in scope for CRD IV. Therefore, please note all references to CRD in this document relates to CRD III.

The method of consolidation used for both prudential and accounting purposes is the same, except for the treatment of investments in Collective Investment Undertakings which may be consolidated for accounting purposes, but not for prudential purposes as they do not meet the definition of financial institutions within the FCA Handbook

## 3. Principal Risks

In order to help identify, manage and control risk, Polar Capital has identified the following nine Top Macro Risks across the business:

### 3.1 Equity Market Risk

Market risk is the risk that the value of assets will decrease due to the change in value of the market risk factors. Common market risk factors include asset prices, interest rates, foreign exchange rates, and commodity prices.

The Polar Capital operates in a highly competitive industry and if it is unable to compete effectively with its competitors or deal with adverse market conditions its business could be adversely affected.

Polar Capital as an investment management company is exposed to market risk in several forms, these include: seed investments; funds under management; and management and performance fee income. A significant fall in markets will reduce the management and performance fee income from our assets under management. Due to the nature of the mix of fixed and variable expenses, the Group's earnings could also reduce, although not at the same rate.

The Group has developed risk monitoring programmes designed to mitigate market risk by actively managing the strategy of the business to compete against new entrants to the market and current competitors. The Group also actively manages its assets and diversification of the business and investment strategies to withstand and mitigate significant downturns in major markets.  The engagement of key service providers and advisors in domestic and overseas markets help the Group understand and successfully navigate the economic, political, legal and environmental landscape within the jurisdictions it operates and proposes to enter.

The Group modelled the impact of a significant fall in markets at the same time as other potential capital impacts and have concluded that although our profitability may be significantly affected, the Group should remain within its prudential capital requirements under the majority of scenarios.

### 3.2 Shift in Culture

Polar Capital is a specialist active fund management business whose culture is characterised as meritocratic and collaborative and its personality, environment, values and behaviour are fundamental to maintaining a collegiate, productive, loyal and compliant culture to effectively deliver its strategic goals. Polar Capital believes building and maintaining our distinct culture as well as providing a good working environment is key to the future success of our business and the engagement and retention of its staff, therefore, we invest significantly in our people, including through training and qualifications.

The Group has developed risk monitoring programmes designed to mitigate this risk by ensuring conflicts of interests are managed at a staff and business level. The Group actively monitors and manages its policies, strategy and activities to ensure incentives to create performance are not diluted by over emphasising asset gathering and product proliferation and other marketing activities.

The Group also actively manages its staff recruitment, retention, development and training to attract and retain staff who uphold the values, integrity, tolerance, diversity and professionalism of its strong and supportive culture. Staff well-being continues to be is a key priority for the Group to ensure staff are well equipped to navigate the challenges and uncertainty posed by the ongoing global pandemic and elevated workloads as the Group continues to strive to meet its strategic goals and grow its business globally.

### 3.3 Fund Manager Retention

Polar Capital is an investment-led, integrated multi-boutique that is a boutique itself. The real strength of Polar Capital is its specialist, focused investment teams who have their own autonomous investment process and philosophy. The Group takes appropriate steps to manage expectations and minimise the loss of its fund managers. Any departure of a key fund manager could result in significant investor redemptions from the fund(s) they manage and loss of revenue to the Group.

The Group regularly engages with fund managers to monitor the attraction and retention of key fund managers. A comprehensive and challenging recruitment process helps to identify and attract talented fund managers. Polar Capital strives to maintain a strong support infrastructure to provide fund managers with the services, guidance, controls and security to manage and grow their funds successfully in a highly competitive and regulated market.

### 3.4 Reputational Risk

The Group's reputation is one of its most important assets since it operates in an industry where integrity, customer trust and confidence are paramount. Over the last 20 years the Group has built its reputation not only on strong performance but through successfully demonstrating its ability to navigate through difficult markets as well as increased operational, political, environmental and regulatory challenges whilst steadily growing the business.

Polar Capital has proactively put in place risk monitoring programmes to mitigate the reputational damage that can be caused by market abuse, failure to oversee its operations, poor communications and failure to deliver its strategic objectives. As a publicly listed company the Group engages key reputable services providers to help Polar Capital control and deliver top services to its clients and investors. Polar Capital also engages the services of a PR company to proactively manage corporate communications and engage with the press and media.

Poor distribution and poor client service including a failure to meet business objectives and suitability / mis-selling will impact the Group's reputation. It is a key aim of the Group to ensure our clients and investors understand the products and services we offer and for us to ensure that the products deliver what investors expect. All our investment processes are fully documented, which enables investors to understand clearly how we manage assets. Ensuring that our investors understand the product is a core element in treating them fairly. We believe our documented processes, detailed reports and literature reduce the likelihood of a product either being misunderstood or not delivering the appropriate customer outcomes, this may also reduce the risk of client losses in the event of portfolio underperformance.

### 3.5 Strategy, Business Model & Sustainability

Economic risks arise from the concept, design and implementation of the Group's business strategy, business model and its approach to addressing environmental, social and governance regulation and market demands. The potential strategic, business, operational and legal risks arising from poor strategy, competitive pressure, poor due diligence and poor integration of acquisition targets will have a significant impact on the Group.

The development of our business and increasing the diversification of our fund management talent is a core objective of the Group and, the business is willing to finance acquisitions, etc. to achieve this diversification where it is prudent to do so while leaving sufficient capital to operate the business.

The Group has several large funds. Should a large fund suffer poor performance there is a risk that earnings may be impacted. Polar Capital proactively manages the growth and diversification of products, strategies and investor base, reducing the impact of a significant fund failing.

Polar Capital operates within a highly competitive environment with both local and global businesses, many of which have greater scale and resources. The changes to the regulatory and business landscape have resulted in a greater focus on fees & charges, a growing importance of brand & marketing and distributor relationships. Failure to compete effectively in this environment may result in loss of existing clients and a reduced opportunity to capture new business which may have a material adverse impact on the Group's financial wellbeing and growth.

The Group's business model continues to demonstrate its resilience through the global pandemic as its business continuity plan was initiated with no negative impact on operations enabling investment teams to navigate challenging markets to deliver strong performance within a rigorous oversight framework.

### 3.6 Fund Performance 1, 3 & 5 years

Poor fund performance or adverse market conditions could lead to outflows of AUM and consequent damage to the financial position of the Group.

Polar Capital prides itself on its ability to delivery good fund performance with over 48% of AuM outperformed benchmark over three years; 80% of AUM outperformed benchmark over five years; and 90% of AuM outperformed benchmark since inception.

The Polar Capital Risk team is experienced and well-resourced with the ability to provide fund teams with full support, risk reports, scenario analysis and stress testing which has enabled the Group to establish strong and experienced investment teams who appreciate the direction and magnitude of portfolio risk and style characteristics. The CIO and CRO provide ongoing support and experienced portfolio risk oversight to help fund managers develop defined plans that will be enacted in the event that their markets "crash." Moreover, operational controls ensure fund compliance with investment objectives, strategies and guidelines to ensure there is no style drift and funds perform within fund limits.

### 3.7 Cybersecurity

The probability of exposure or loss resulting from a cyber attack or data breach could result in significant loss or harm to the technical infrastructure, use of technology or reputation of the Group.

Polar Capital is highly dependent on our IT infrastructure and systems. A successful cyber-attack could result in the loss of data; disrupt our ability to service our customers or in a worst case scenario – a loss of clients' assets.

Polar Capital maintains a highly experienced IT team that understands the cyber risks of the organisational operations, organisational assets and individuals and performs regular maintenance, repair and testing to ensure the security and resilience of systems and assets. Specialist third party service providers and consultants are regularly engaged to review and test our IT infrastructure and security including penetration testing. Staff awareness and training is an important part of our defense against attack and data breaches. Polar Capital demands the same commitment to tackling cybersecurity from its key outsourced providers.

### 3.8 Regulatory Risk

Failure to comply with regulations in the jurisdictions in which it operates, could result in the Group losing the ability to operate as a regulated financial services business or its AIM quotation being suspended or withdrawn. Penalties also includes the risk of financial forfeiture, legal penalties and material loss if Polar Capital fails to act in accordance with industry laws and regulations.

The regulatory environment that the Group operates in continues to grow more complex: last few years we saw the implementation of PRIIPS, MiFID II, SMCR, GDPR, Asset Management Market Study, Sustainable Finance Disclosure Regulation and the upcoming Investment Firms Prudential Regime as well as UK and EU ESG taxonomy regulations.

The Group will continue to dedicate considerable time and resources to ensure the business meets its new and ongoing regulatory obligations which will impact both the Group and the investment vehicles operated by the Group.

Increasing and changing regulations bring additional, or increased, risks of errors or omissions which can result in financial or other penalties and could result in a loss of confidence by our clients. Regulatory changes may also affect the products and services the Group offers, to whom or where it may offer them and the fees and charges it is able to charge.

Polar Capital's maintains an experienced Legal & Compliance team which operates a comprehensive compliance monitoring programme to confirm regulatory obligations are met. The Group works with industry bodies, lawyers and consultants to ensure all business activities are appropriately managed and comply with local business standards, tax and legal and regulatory requirements in all jurisdictions it operates as it expands its global business.

Staff receive regular comprehensive online and in person compliance training to ensure Group policies and procedures are understood and controls are put in practice to maintain a robust compliance culture.

### 3.9 Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events could result in significant loss or harm to the Group. The management of operational risk is formalised in a number of ways including risk assessments and monitoring programmes, documented procedures and compliance manuals, a comprehensive compliance monitoring programme, and regular assessment of key service providers.

The key operational risks that have been identified as potentially having a significant impact on our business or capital are as follows:

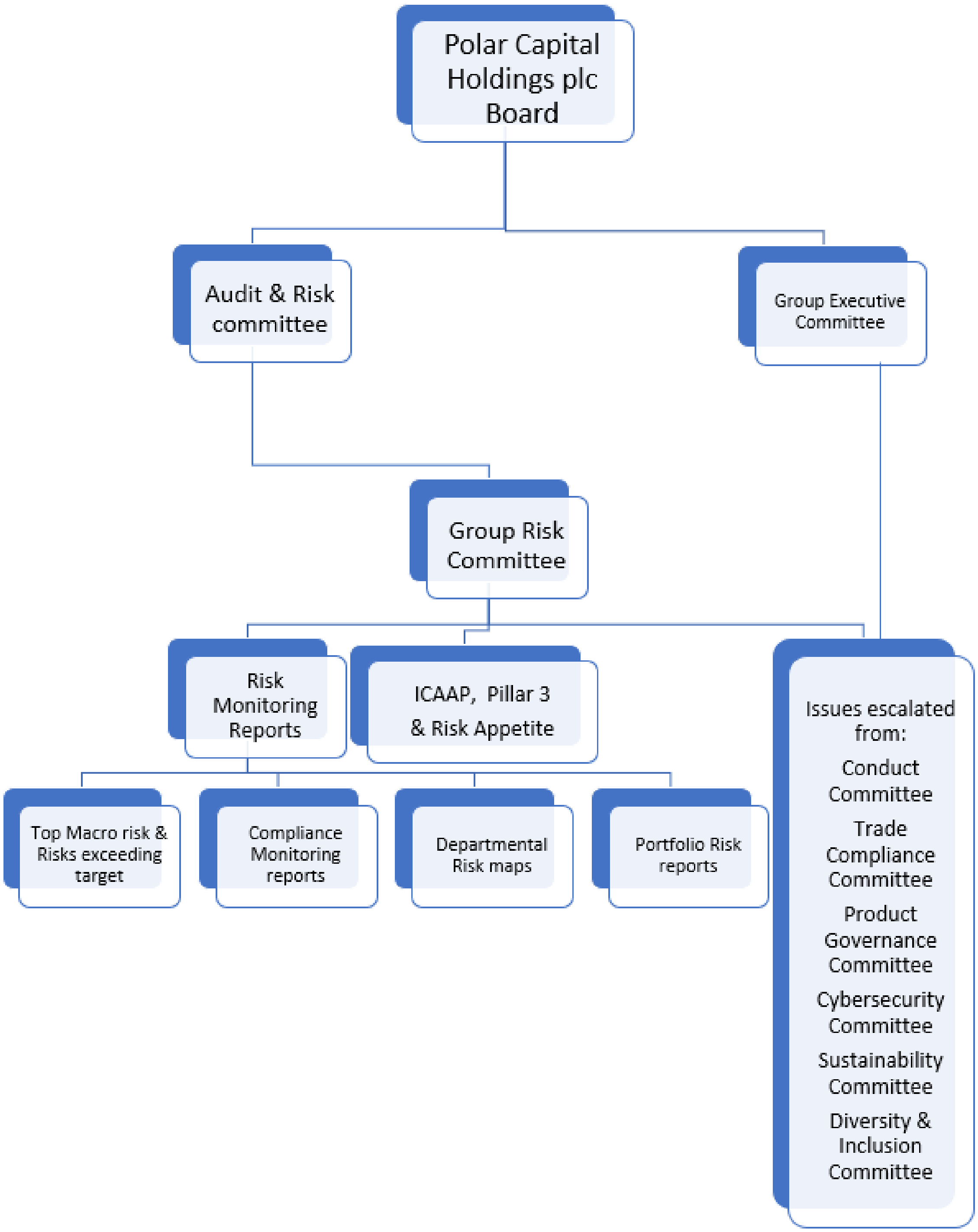
a. A large transaction error
b. A significant regulatory breach or sanction
c. A breach of investment mandates
d. A cyber-attack that results in data loss
e. A failure of IT systems
f. A failure of key service providers

This macro risk encompasses the greatest number of risks in the risk universe identified by the Group. The Polar Capital Operations team maintains a robust control environment to mitigate the impact and probability of the above key operational risks.

## 4. Risk Management Framework

In order to ensure that the Group regularly reviews and monitors all the potential areas of risk to the business, it has implemented a risk management framework which allows management, the Audit & Risk Committee and the Board to be kept fully informed of potential risks to the business and also how these risks would impact the Group's capital adequacy.

The diagram below summarises the key elements of the Group's Risk Framework.




There are three main elements to capturing and reviewing risk within the Group:

i. the Risk Monitoring Reports (“RMP”),
ii. ICAAP, Pillar 3 and Risk Appetite Statement (“RAS”), and
iii. Issues escalated from group committees.

The Group operates a comprehensive risk management structure of three lines of defence to support the Group’s core business, fund management. The diagram in section 4.1 illustrates the various levels of risk management at Polar Capital.

<u>First line of Defence - Front office controls</u>
The first line of defence are front office controls embedded in Polar Capital’s business units. Infrastructure Operations, and Sales & Marketing play a key role in supporting fund management and providing a good control environment. These business units are primarily responsible for managing their own processes, identifying and controlling risks by using business control frameworks, and implementing internal processes and controls. Key controls include but are not limited to: restricted lists; dealing; hard and soft trading, position and risk limits; best execution; regulatory reporting with various exchanges and regulatory bodies worldwide; use of research and costs; client intake; data protection; controls over the production and distribution of financial promotions; and IT controls.

<u>Second line of Defence – Functions that oversee controls</u>
The Finance, Risk, Compliance and IT review functions as well as Group committees all serve as the Group’s second line of defence by managing controls and providing oversight over key risks to the business.

The CLO/CCO manages the overall Polar Capital Risk Monitoring Programme (RMP). The RMP sets the framework under which controls are reviewed, monitored and evaluated in adherence with the risk strategy outlined by the Group’s Board. The RMP captures all controls and monitoring which relate to all risks to the Group’s seven business units (Executive, Fund Management, Sales & Marketing, Executive Operations, Infrastructure Operations, Finance and Legal & Compliance). The CLO/CCO reports the outcome of the RMP to the Group Risk Committee, Audit Committee and PCH Board as part of the Internal Capital Adequacy Assessment Process. (ICAAP)

The Group has a constructively challenging Group Risk Committee (GRC) which determines the acceptability of risks in portfolios and investments, ensures that fund managers do not go “off piste” or lose their convictions and assurance, and ensure risks are within the parameters outlined in the fund prospectuses as well as those set by the Polar Capital Hedge Funds, UCITS and Investment Trust Boards.

The GRC is also tasked with identifying emerging risks and prioritising the top five risks in each business unit as well as the top macro risks to the business.

The Committee is chaired by the CLO/CCO and includes the CEO, Executive Director, COO, CIO, CRO, Global Head of Distribution and Finance Director. The PCH Audit Committee Chair may attend all Committee meetings and a copy of the Committee minutes are also provided to the Audit Committee and PCH Board. The Committee considers all Group risks including corporate, operational, distribution, portfolio, legal and compliance risk. The CRO reports portfolio risks to the Committee and any matters of concern noted at the Trade Compliance Committee, Cyber Security Committee and, Product Governance Committee are reported to the Group Risk Committee. The Group's portfolio managers may also be invited to present to this Committee when requested. The Group Risk Committee meets on a quarterly basis.

The Chief Risk Officer (CRO) has responsibility for portfolio and investment risk monitoring. Risks are identified, assessed and reported to the Group Risk Committee as well as the Hedge Fund, UCITS and Investment Trust Boards. The CRO monitors risk on an individual fund level as well as at Group level. The CRO reports to the Chief Investment Officer ("CIO"). The CIO is a Senior Manager and has ultimate responsibility and oversight over the Group's investment risk. Both the CRO and CIO are within the investment manager and are independent from fund management.

The Trade Compliance Committee meets on a quarterly basis and has responsibility for reviewing issues arising from monitoring trade allocations, leverage limits, cross holdings, best execution, market abuse, dealing commissions and broker approval lists. The Committee also oversees the implementation of operational regulatory initiatives. The Committee consists of the Head of Compliance (Chair), CLO/CCO, COO, CIO, CRO , Head of Trading and their respective teams.

The Cybersecurity Committee meets on a quarterly basis to review the group's cyber security controls and testing as well as the business continuity arrangements, test results and breaches. The Committee is chaired by the Chief Technology Officer and attended by the CCO and members of their respective teams.

The Product Governance Committee meets on a quarterly basis to review the Group's product governance. The Committee consists of the CEO (Chair), COO, CLO/CCO, Group Company Secretary and Global Head of Distribution and attended by members of their respective teams.

The Head of Performance Attribution has responsibility for producing performance attribution reports to aid in the process of understanding where value is being created in the fund management process as well as to more accurately monitor potential style drift.

<u>Third Line of Defence – Review and Oversight</u>

The Compliance team is responsible for carrying out monitoring and reviews of the first line's controls as well as the second line controls, the functions that oversee those controls to ensure that they are effective. Monitoring includes periodic audits of financial promotions reviews, trade restrictions and control reviews as well as testing business controls to determine their effectiveness. Issues noted are raised to the Group Risk Committee and Audit & Risk Committee. This work is similar to that carried out by an Internal Audit function.

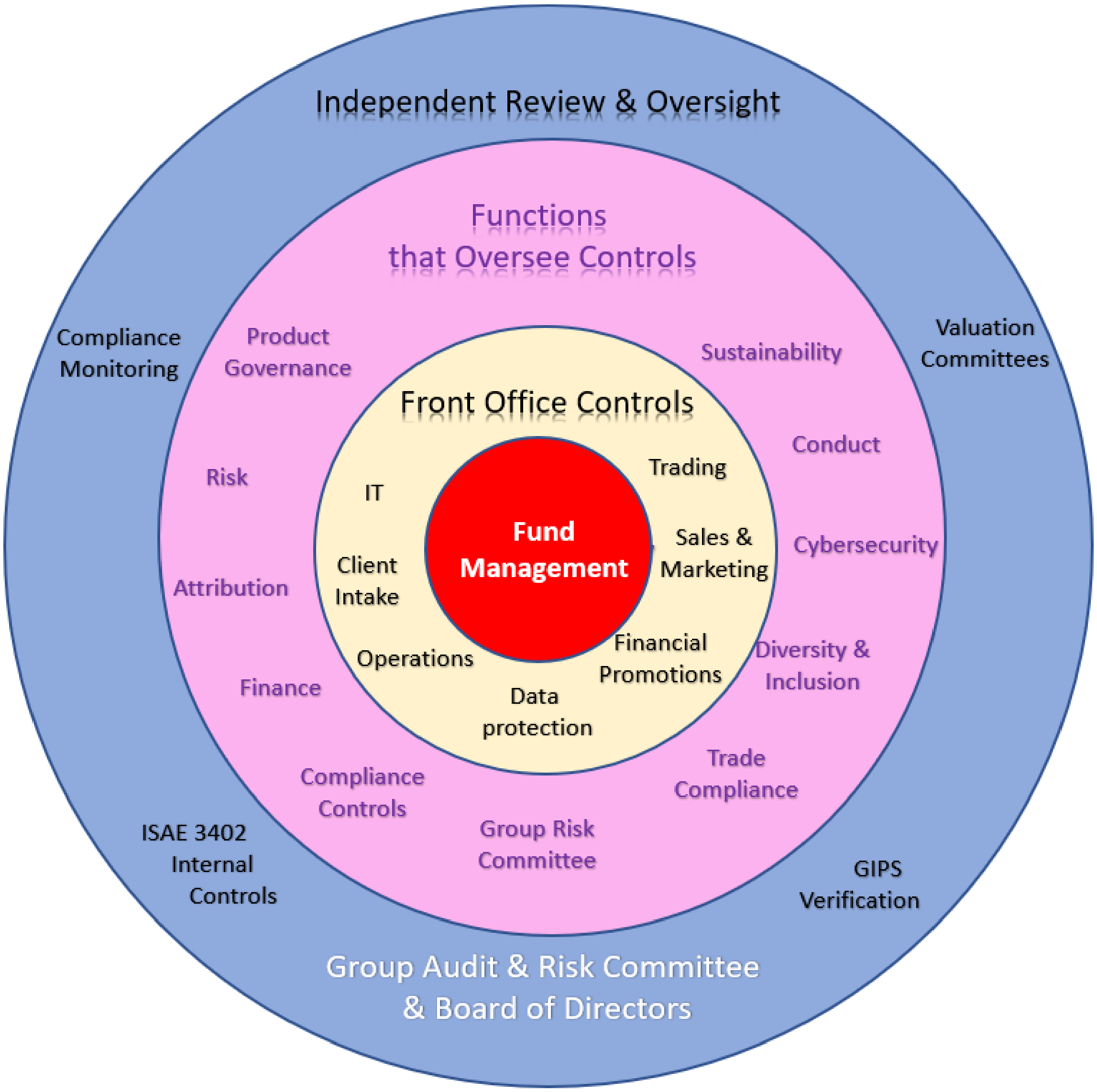
The UCITS Valuation Committee is chaired by a non-executive director of the Polar Capital UCITS Boards. The AIFM Valuation Committee specifically oversees the valuation process alongside the Polar Operations Desk who ensures that the fund administrators, who are responsible for the calculation of the Net Asset Value ('NAV') of the AIFs, receive the list of pricing directly from the third-party source. All members of the Valuation Committee and the Polar Operations Desk are separate from portfolio management. The Committees are tasked with reviewing and challenging the pricing of unquoted or illiquid positions, or positions over certain sizes held in Polar Capital funds. The CRO, COO and Head of Compliance are also members of both valuation committees. The Investment Trust Boards review the portfolio each meeting and consider the investment manager's recommendations for valuing the unlisted investment every six months.

The independent Group auditors conduct an internal controls review and prepare the ISAE 3402 report which provides a more extensive analysis of the controls which operated during the financial year and their effectiveness. Global Investments Performance Standards ("GIPS") verification reports are available for every calendar year since 2009 confirming the Group's compliance with all the processes, procedures and composite construction requirements of GIPS.

Group Audit & Risk Committee & Board of Directors

The Group's Board of Directors has ultimate responsibility in determining the acceptability of risks that the Group faces and in determining the framework for mitigating those risks. Authority flows from the Group's Board of Directors to the Audit Committee to provide an objective assessment of controls and monitoring in place to mitigate risks.

## 4.1 Risk Management Lines of Defence


Independent Review & Oversight
Functions
that Oversee Controls
Front Office Controls
Fund
Management
Compliance
Monitoring
Product
Governance
Sustainability
Valuation
Committees
Conduct
Trading
IT
Risk
Sales &
Marketing
Cybersecurity
Client
Intake
Attribution
Financial
Promotions
Diversity &
Inclusion
Operations
Finance
Data
protection
Trade
Compliance
Compliance
Controls
Group Risk
Committee
ISAE 3402
Internal
Controls
GIPS
Verification
Group Audit & Risk Committee
& Board of Directors

## 5. Capital Resources & Adequacy

The Group looks to ensure that it and its subsidiaries should have sufficient capital to meet regulatory requirements and support current and future activities.

The Group's Internal Capital Adequacy Assessment Process ("ICAAP") involves the use of internal and external data, various sensitivity and stress/scenario testing of the key risks and an assessment of how the Group mitigates these risks, i.e. by use of available systems and management controls or by increasing levels of capital as a precautionary measure.

### 5.1 Pillar 1 Capital Requirement

Pillar 1 capital comprises the higher of:

- A base capital requirement (€125k); or
- The sum of the credit risk capital requirement and market risk capital requirement; or
- The fixed overheads requirement ("FOR").

| **Group Pillar 1 Capital Requirement as at 31 March 2021** | |
|---|---|
| | **GBP'000** |
| | |
| (1) Credit Risk | 8,059 |
| | |
| (2) Market Risk | 868 |
| | |
| (3) Sum of (1) & (2) | 8,927 |
| | |
| (4) Fixed Overheads requirement (FOH) | 10,767 |
| | |
| **Pillar 1 Capital Requirement – higher of (3) and (4)** | **10,767** |

### 5.2 Capital Resources

Under the existing CRD capital adequacy rules, the Group has a regulatory requirement of £10,767,000 and has carried a surplus of £39,900,000 (as at 31 March 2021). We have adopted the criteria for a "limited licence" BIPRU €50K firm in our calculations.[2] However, on an unconsolidated basis, under GENPRU 2.1.48 a firm subject to BIPRU that is a CPMI should consider €125k as its base capital requirement.

| Group Pillar 1 as at 31 March 2021 | |
|---|---|
| | **GBP'000** |
| **Core Tier 1 Capital** | |
| Share capital | 2,468 |
| Share premium | 19,364 |
| Retained earnings (opening balance) | 110,358 |
| Foreseeable dividend payments | (29,900) |
| **Core Tier 1 Capital before deductions** | 102,290 |
| | |
| Investment in own shares | (26,579) |
| Intangible assets | (24,998) |
| **Core Tier 1 Capital after deductions** | 50,713 |
| | |
| Deductions for material holdings | |
| **Total capital resources** | **50,713** |
| | |
| Regulatory Capital Requirement (Pillar1) | 10,767 |
| **Regulatory capital surplus** | **39,946** |

## 5.3 ICAAP and Pillar 2 Capital

The Group uses a "Pillar 1 plus" approach to its internal assessment of capital resources with the base set as the Pillar 1 minimum capital requirements, with additional capital held in light of its assessment of the risks to which the Group is or may be exposed.

The Group has reviewed all the major risks as described in GENPRU 1.2.30R (2) of the FCA handbook and assessed how relevant each risk is to the Group based on its activities. In evaluating each of the major risks the Group has used the guidelines of the handbook and the relevant sections for each risk type under the prudential sourcebook rules[2] as well as other relevant regulatory rules. Risks pertinent to the Group such as the culture of openness, having a clear understanding of the style and performance of managers, maintaining a body of skilled managers and operating thorough risk and valuation committees were also examined. Although not directly part of the Group's capital resource calculations these are a very significant part of managing risk and maintaining the value and reputation of the business. From this, Polar Capital has documented how it calculates the capital requirements under Pillar 2 and AIFMD, given that not all aspects are relevant to the Group's business. The Group also considered if and to what level major risks facing other institutions are applicable, the level of risk involved and how the Group mitigates/controls these risks through its systems and controls.

The ICAAP is reviewed and approved by the Audit and Risk Committee and the Group Board.

[2] The FCA, General Prudential Sourcebook (GENPRU) and Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU)

## 6. <u>Remuneration Code Disclosure</u>

### 6.1 Introduction

For remuneration purposes Polar Capital is currently authorised:

A) As an AIFM firm subject to the FCA's AIFM remuneration code set out in SYSC 19B (the "**19B Code**") in relation to the alternative investment funds ("**AIFs**") which it manages. These are Polar's Investment Trusts and its Cayman Funds ("**AIF business**").

B) To manage UCITS subject to the FCA remuneration code for UCITS firms (the "**19E Code**") set out in SYSC 19E. This is in relation to Polar's UCITS and its managed accounts ("**non-AIF business**").

FCA SYSC 19C.1.1A provides that a full-scope UK AIFM that complies with SYSC 19B will also comply with SYSC 19C. ESMA's guidelines of 31 March 2016 (ESMA/2016//411) paragraph 30 provide that where staff are subject to different sectoral principles they may be remunerated by applying the sectoral remuneration principles which are deemed more effective for achieving the outcomes of discouraging inappropriate risk taking and aligning the interest of the relevant individuals with those of investors in the funds or other portfolios they manage.

On this basis Polar has determined to apply the AIFMD remuneration rules to its business generally, with such adjustments as it may consider appropriate in the event of any inconsistency between the different sectorial provisions.

### 6.2 Polar Capital's Remuneration Committee

Polar Capital has an independent Remuneration Committee comprising of a number of Non-Executive Directors. The Committee has general oversight of all remuneration arrangements for all staff and it considers all material elements of remuneration policy, remuneration itself and incentives with reference to independent remuneration research and professional advice.

Among its duties, the Committee is responsible for all elements of the remuneration of its executive Directors and Chairman and is responsible for determining the firm's policy relating to the payment and deferral of any bonus, compensation payment, equity options or other discretionary sum to any partner or employee of the Group. In making remuneration decisions, the Remuneration Committee has regard to all aspects of partner or employee performance including any potentially excessive risk taking from a financial and a non-financial perspective.

### 6.3 Code Staff & Link Between Pay and Performance

The Group currently has 168 staff of which 56 are Code staff. Code staff in the Polar Group are made up of both employees of the Group and members of Polar Capital LLP. Employees generally participate in an annual discretionary bonus scheme. The purpose of this scheme is to reward employees for their contributions to the business during the year. The level of bonus payments are determined by reference to the profits of the Group and the personal performance of the individual employee and the performance of the particular area in which the employee works. Where profits are reduced, the amount available for distribution as annual discretionary bonuses is reduced.

Some employees who are part of fund management teams do not participate in the annual discretionary bonus scheme. They (along with members of their teams who are LLP members) are instead eligible for bonuses (or profit allocations in the case of LLP members) which are assessed by reference to the economic success of their particular business unit. These bonuses are based on realised profit and have an inbuilt risk adjustment mechanism. Where the economic success of a particular business unit is depressed or reduced no bonus payments will be made.

Furthermore, the firm's long-term equity incentive plans (including its preference share scheme) deliver rewards in shares in Polar Capital Holdings PLC. In this way, reward is linked to the viability of the group as a whole and is consistent with sound and effective risk management.

The firm also reviews its fund managers on a regular basis to ensure that there is no style drift and it is careful to ensure that variable remuneration payments are based on actual payments received from their products, i.e. management and performance fees physically received, adjusted for costs.

### 6.4 Polar Remuneration Deferral Policy

In relation to the financial year ended March 2021 the Remuneration Committee applied the deferral policy to Code Staff whose variable compensation forms a significant proportion of total compensation and exceeds set thresholds. The quantum of deferral for variable compensation in excess of set thresholds will be 40% to 60% spread over three years. The deferral may be into a fund or Polar stock at the discretion of the Remuneration Committee.

The following table sets out total remuneration for the 31 March 2021 financial year end for all Code staff in two categories, senior management and all other staff. The total remuneration figures include fixed and variable elements of remuneration as well as profit shares awarded to such individuals in response of their partnership shares.

| **Code Staff** | **Total compensation** |
|---|---|
| **Senior Management** | **£5,300,000** |
| **Other** | **£73,500,000** |

From the financial year ending 31 March 2021, Polar has also elected to apply a discrete remuneration deferral policy (the "deferral policy") tailored to Polar's particular business circumstances and codified in the "Rules of the Polar Capital Deferred Remuneration Plan of April 2019 (the "Rules").