Kernow Asset Management

Remuneration Policy

June 2021

Kernow Asset Management, 51 St Mary's Road, Tonbridge TN9 2LE, Kent

Registered in England and Wales no. 12230052

Document Governance

Document owner:

Name	Role
Alasdair Shaikh	Chairman of Remuneration Committee

Document approval process:

Governing body / person	Date approved
Remuneration Committee	TBC

Document review and change record:

Date	Version	Revision
28/05/20	1	
	2	
	3	
	4	
	5	
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1. INTRODUCTION

Kernow Asset Management ("Kernow") is authorised by the Financial Conduct Authority ("FCA") as a Markets in Financial Instruments Directive ("MiFID") firm. It is therefore subject to:

- SYSC 19C: The FCA BIPRU Remuneration Code contained in the FCA's Handbook of Rules and Guidance (the "BIPRU Remuneration Code") and the FCA's Guidance on Proportionality (the "FCA Guidance").
- Kernow is not subject directly to SYSC 19E, the UCITS Remuneration Code.

The principal aim of the remuneration rules is to ensure that firms have risk-focused remuneration policies, which are consistent with and promote sound and effective risk management and do not expose firms (or their clients) to excessive risk.

2. KERNOW'S STRUCTURE AND BUSINESS

Kernow was established in 2019 by its Founders. It is structured as a limited company. The company is managed, majority-owned and controlled by its Founders, Alyx Wood and Edward Hugo. Kernow is a relatively small firm with just its two Founders, and several fund marketing introducers as of 31st May 2021.

As of 31st May 2021 Kernow operates private managed accounts of behalf of certain high net worth client and family offices.

Kernow is focused on delivering superior investment performance for its clients.

Kernow aims to find mispriced UK equities and trade them as they pass back through their fundamental equilibrium over time. The fund manager believes this gives investors access to superior investment returns.

To achieve this aim, the team perform deep independent reviews across the whole universe of UK-listed companies. Alpha predominately comes from best-of-breed stock selection based on internally generated research. The balance of the portfolio is based on how the selected equities fit together in different market environments.

Kernow believes a hedging strategy delivers maximum equity diversification by taking advantage of dynamic correlation characteristics.

Kernow has the conviction to hold emotionally uncomfortable positions regardless of whether they are big or small, mainstream or niche.

Effective risk management is also a core element of the investment process. In addition to day-to-day monitoring by the portfolio manager, the firm has a compliance and risk function, supported by the services of a third-party compliance consultant, which provides further oversight. Kernow has also retained the services of a third-party compliance consultant. These arrangements are designed to ensure that assets are managed in accordance with its investment objectives and policies and without excessive risk. Kernow's Board of Directors provides an additional level of Governance and Oversight.

3. KERNOW'S HIGH-LEVEL ATTITUDE TO REMUNERATION

Kernow has adopted a single remuneration policy which governs all personnel across all elements of Kernow's business.

Kernow seeks to ensure that its remuneration policies and practices:

- are consistent with and promote sound and effective risk management;
- do not encourage risk taking which is inconsistent with the risk profile and constitution of the investment strategy;
- include measures to avoid conflicts of interest; and
- are in line with Kernow's business strategies, objectives, values and long-term interests.

The Founders understand that the ultimate objective of the BIPRU Remuneration Code is to ensure that remuneration practices, structures and incentives at Kernow do not encourage any behaviour or activity which could be detrimental to, or conflict with, the long-term interest of clients.

The Founders are the majority-owners of Kernow Asset Management Limited. The Founders have invested their own money into the business. The firm's capital is derived from the Founder's contributions of capital as well as certain external investors, who hold on aggregate 20% of the business.

As of 31 May 2021, the Founders are unpaid. As Kernow's approaches a scale at which this will become appropriate, it is the intention of the Remuneration Committee to set Founders' remuneration in-line with industry standards. It is the eventual intention to pay a top quartile competitive market salary to ensure it has high quality and motivated staff, Board, and advisors alike.

It is Kernow's policy that the two Founders, defined above, shall be remunerated equally, whether through dividends, salaries, or other profit-sharing arrangements, despite their respective differing shareholdings.

Should one of the Founders leave their equity would be retained with dividend potential but no salary or other profit-share arrangement would be paid.

The Founders' interests are totally aligned with and dependent upon the long-term profitability and sustainability of Kernow. Given Kernow's single business model, the long-term profitability and sustainability of the firm is inextricably linked to the management fees generated from managing client funds, as this is the only source of the firm's revenue. Kernow receives a flat rate fee based upon the level of the assets under management within the funds as well as an incentive fee with a high watermark.

The assets under management depend on both investors being willing to invest their money (and to continue to do so) and the ongoing investment performance. It is, therefore, very much in Kernow's interests (and the Founders' interests) to ensure that the funds perform in a manner which is consistent with its stated investment objectives and within pre-agreed risk constraints. Thus, there is a natural alignment between client interests, the interests of Kernow and the interests of the Founders.

4. PRACTICAL APPLICATION OF THE REMUNERATION POLICY

This policy applies to all staff (including the Founders) of Kernow.

Under the BIPRU Remuneration Code, some of the Remuneration Principles are directed at certain "Remuneration Code Staff", rather than all employees.

Remuneration Code Staff are, except where it is demonstrated that they have no material impact on the risk profile of Kernow or the Funds:

- Senior management (i.e. those individuals who are Senior Managers performing Senior Management Functions under SMCR);
- Risk takers (i.e. those Certified staff under SMCR responsible for making investment decisions);
- Heads of control functions (i.e. risk management, compliance, internal audit);
- Staff responsible for heading functions such as marketing, administration and human resources; and
- Any individuals receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers.

Remuneration Code Staff include relevant staff employed by any entity to which portfolio management or risk management has been delegated. Kernow does not delegate any such activities. Neither the Founders' profit shares nor their drawings nor employee salaries are deemed to be variable remuneration.

Kernow has considered carefully which of its staff are within the definition of Remuneration Code Staff. It has determined that only the Founders are Remuneration

Code Staff. In reaching this determination, the Management Committee took the following into consideration:

- The small size of the firm and its simple internal organisational structure;
- The only persons with legal authority to bind Kernow as a firm are the Founders, who have day to day responsibility for the management and operation of the firm;
- Kernow's investment selection process is strictly adhered to at all times;
- Portfolio construction is only undertaken by the Founders and led by the CIO.

The Remuneration Committee members believe that several Remuneration Principles relating to variable remuneration can be disapplied on grounds of proportionality. This applies in particular to the requirements described in Principle 4 in respect of a Remuneration Committee, in Principle 12 in respect of payment in shares, deferral and performance adjustment. The concept of proportionality and its current application to Kernow is discussed below in section 5.

5. KERNOW'S APPROACH TO PROPORTIONALITY

Kernow is required to comply with the BIPRU Remuneration Code in a way and to the extent that is appropriate to the firm's size and internal organisation and to the nature, scale and complexity of the firm's activities.

The Remuneration Committee members, having considered in detail the Code and the FCA Guidance, have concluded that it would not be proportionate to apply certain of the Remuneration Principles to its Remuneration Code Staff and employees more generally.

In particular, the Remuneration Committee members have determined that the following Remuneration Principles (as described in the BIPRU Remuneration Code) need not be adhered to in their entirety:

- Remuneration Principle 12 (b) – Remuneration Structures – Assessment of Performance – requirement not applicable to Remuneration Code Staff and not applied on grounds of proportionality to non-Remuneration Code Staff in so far as it relates to assessing performance in the context of a multi-year framework appropriate to the recommended holding period for investors in the Funds;
- Remuneration Principle 12 (f) – Remuneration Structures – A substantial proportion of variable remuneration to be paid by way of Fund units, shares or similar instruments subject to a retention policy – requirement not applicable to Remuneration Code Staff and not applied at all on grounds of proportionality to non-Remuneration Code Staff;

- Remuneration Principle 12 (g) – Remuneration Structures – A substantial proportion of variable remuneration should be deferred – requirement not applicable to Remuneration Code Staff and not applied at all on grounds of proportionality to non-Remuneration Code Staff;
- Remuneration Principle 12 (h) – Measurement of Performance including adjustment mechanisms to reflect risks – requirement not applicable to Remuneration Code Staff.

6. REMUNERATION POLICIES

Kernow's remuneration policies reflect the fact that Kernow is a limited company established by the Founders. As a result, a distinction is made between the Founders and the employees of the firm as each Founder is to be paid equally through a mixture of dividends, salaries or other payment, despite their respective differing shareholdings.

Kernow's approach to remuneration is relatively simple, reflecting the size and internal organisation of the business.

The Founders are each paid equally through a mixture of dividends, salaries or other payment, despite their respective differing shareholdings. The annual remuneration package for the chair of the board, the executive directors and any designated senior managers including salary, incentive payments (including bonus and incentive schemes) pension and other benefits in kind is set by the Remuneration Committee.

Subject thereto, employees' remuneration package may comprise:

- A basic salary;
- A share of net profits;
- A share of net revenue from sales;
- The possibility of being awarded an annual discretionary bonus, and;
- Certain other benefits including personal pension contribution.

The firm aims to set the basic salary of an employee at a competitive level, in line with current market practice. It will always be at a sufficient level to allow for a fully flexible approach to be taken to the possibility of awarding (or not awarding) an annual bonus.

The payment of a bonus is entirely at Kernow's discretion and will depend on both the financial position of the firm and the outcome of the individual's performance review which is undertaken regularly. The performance review process takes into account a range of factors including the individual's performance and their broader contribution to the business including a range of non-financial measures. Those employees working in control functions such as risk management or compliance have their personal objectives set by reference to their specific functions and will be rewarded according to the achievement of those objectives, rather than the performance of the business more generally.

Any bonus payment for an employee (i.e. not the chair of the board, the executive directors and any designated senior managers) is agreed by unanimous consent of the Founders with reference to the principles contained within this Remuneration Policy.

The Board itself or, where required by the Articles of Association, the shareholders shall determine the remuneration of the non-executive directors within the limits set in the Articles of Association.

As far as pension benefits are concerned, Kernow intends to contribute a percentage of the employee’s salary into a personal pension scheme. Employees may contribute as much as they wish, in accordance with the normal rules governing personal pension schemes. Kernow's policy is not to make any increases in pension contribution when someone leaves the firm.

Kernow does not guarantee any annual bonus award, except where this is absolutely necessary in the context of hiring a new employee in the first year of their employment.

Kernow's policy is not to pay employees leaving the firm any early termination payments.

Kernow staff (including the Founders) are not permitted to undermine the principles of the BIPRU Remuneration Code by using personal hedging strategies, remuneration-related insurance, or liability-related insurance. This Remuneration Policy is supplemented by the Personal Account Dealing Policy.

Risk Management

Kernow is required to ensure that remuneration practices are consistent with, and promote, sound and effective risk management. The remuneration policy does not encourage risk taking (including Sustainability Risk such as environmental, social or governance events or conditions that, if they occurred, would cause an actual or a potential material negative impact on the value of an investment) which is inconsistent with the risk profile of strategy.

Kernow's investment strategy is described above. Sound and effective risk management is a key element of Kernow's investment strategy. The investment process is rigorously adhered to at all times.

The remuneration of the Founders is dependent upon Kernow's overall profitability which in turn is largely dependent upon the management and incentive fees received from clients. Kernow charges clients a competitive flat rate fee based on the level of assets under management and an incentive fee with a high watermark. The Founders remuneration is set by the Remuneration Committee.

The employees may be awarded an annual bonus, but this is entirely at Kernow's discretion and will depend on both the firm's profitability and the individual's performance. The employees remuneration is set by the Founders, in-line with Kernow's remuneration policy.

Kernow does not have any practice of remunerating its investment personnel for generating high returns in the short term.

Alignment with Business Strategy and the Interests of the Funds

Remuneration practices must be in line with the business strategy, objectives, values and interests of each of Kernow, the funds under management and the investors and should include measures to avoid conflicts of interest.

The Founders, as owners of the business, receive remuneration which is totally dependent on the overall profitability of the firm. The alignment of the Founders' interests with those of clients is discussed in detail in above.

As far as employees are concerned, Kernow seeks to attract and retain high calibre staff. The employee remuneration package is therefore competitive and reflects industry market practice. As described above, annual bonus awards are entirely discretionary and depend on the performance of the individual as well as the firm itself.

There are two primary types of risk which could arise within a typical asset management business from inappropriate remuneration structures:

- Incentives related to investment performance, which could give rise to a focus on short term investment performance and potentially increase the risks for the investors; and

- Incentives related to sales, which could encourage employees to inappropriately sell a service to investors for whom it is unsuitable.

The nature of Kernow's business, the nature of the funds which it manages, and the nature of its remuneration practices naturally mitigate these risks. From an investment perspective the risk identified above is controlled through Kernow's investment process and as noted above there is no incentivisation of investment staff based on short term investment performance. Investment decisions are only made by the Founders.

From a sales perspective, the investment strategy is only suitable for profesional investors, until the launch of its retail regulated UK OEIC. Kernow emphasises the long-term nature of the investment strategy in all marketing literature and other documentation and seeks to ensure that investors understand that the strategy is not appropriate for those seeking short term returns. Sales performance will be considered in the light of net sales and will therefore be negatively affected if investors fail to retain their investment in the longer term. As Kernow is a single product firm at present there is no risk of product bias.

The Remuneration Committee believe that the firm's remuneration practices are in line with the interests of clients.

7. GOVERNANCE AND REVIEW

This Remuneration Policy has been developed by the Remuneration Committee.

The Remuneration Committee shall approve the design of, and determine targets for, any performance related pay schemes operated by the company which should be designed to support the company's strategy and promote long term sustainable success; total annual payments made under such schemes shall be approved by the Committee.

The Remuneration Committee is responsible for approving, maintaining and overseeing this policy and for approving any exemptions or changes. The Remuneration Policy will be reviewed by the Remuneration Committee at least annually.

On an annual basis the Head of Compliance will review the firm's compliance with this Remuneration Policy. Any issues identified as a result of this review will be reported to the Remuneration Committee.

8. DISCLOSURE

Kernow provides summary quantitative remuneration disclosure for its Code staff in the firm's annual Pillar 3 document.

Contact

Should you have any questions about this policy please contact Edward Hugo, Head of Compliance.