Disclosures on Remuneration Policy and Remuneration Practice pursuant to Art. 37, German Capital Investment Act (KAGB)

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Background

On 22 March 2013, the Federal Financial Supervisory Authority (BaFin) published a data sheet on the approval procedure pursuant to Art. 22, German Capital Investment Act (KAGB), which in item no. 8 elaborates the required disclosures about the remuneration policy and remuneration practice pursuant to Art. 37, KAGB.

According to the data sheet, AIFM companies should meet the concrete requirements specified in the "Guidelines on sound remuneration policies under the AIFMD" ("Remuneration Guidelines") that the European Securities and Markets Authority (ESMA) published on 11 February 2013.

Accordingly, the company has to disclose, at a minimum, the following information about its remuneration policy and remuneration practice when applying for approval of its sound remuneration policies in adherence to the AIFM Directive:

- a list of the employees (or employee groups) who fall within the scope of the company's remuneration policy and practices; disclosure of a given employee's functional position being sufficient for the purpose,
- a representation of the way the variable and fixed remuneration are structured (e. g. disclosure of the underlying parameters),
- the disclosure whether a remuneration committee will be set up and, if not, the disclosure of the reasons for not setting one up

The sections below will therefore detail the remuneration policy and practice of HIH Invest Real Estate GmbH ("HIH" for short).

1. General Information

WHIH is not committed to the rules of a collective wage agreement, and there is no staff council. In principle, the remuneration of employees is freely negotiated and contractually agreed, and consists of a fixed basic salary plus, in some cases, a variable remuneration component (discretionary bonus). In individual cases, one-off and voluntary bonus payments are granted in recognition of outstanding personal performance or extraordinary burdens.

The basic salary is paid in 12 monthly instalments. The bonus is determined in a coordinated top-down process during the first quarter of a given calendar year by the senior management (in consultation with the partner) exercising equitable discretion, and is usually disbursed in conjunction with the remuneration statement for the month of March.

The criteria for any required fixed salary review and for the specific amount of the discretionary bonus include the individual performance of each employee and the respective business area, an analysis of a given employee's job satisfaction and inversely the risk of losing the employee (also analysing the in-house or external availability of a replacement), seniority, and the historical remuneration development of each employee.

The agreed remuneration and the basic remuneration system are reviewed on an annual basis during the first quarter of each calendar year. The purpose of the review is to compare the salary structure of comparable positions among the employees, to verify the market-consistency of the remuneration, and thus to analyse whether the remuneration system is used effectively to optimise job satisfaction and employee retention, too.

Job satisfaction is to be achieved not solely through monetary incentives, as HIH is equally committed to a well-structured health and retirement system, to the promotion of social interaction and social justice, as well as to fair pay and equal treatment of women and men and employees with physical or mental disabilities. HIH also promotes intercultural exchange by hiring people from different countries of origin.

Our understanding of diversity covers a range of aspects, including gender, ethnicity, LGBTQ identity, disability, mental health and governance. We keep striving for a balanced diversity among employees, especially on the executive level. We support initiatives to hire, promote and retain more women on all levels of the organisation.

As a company, HIH is characterised by flat organisational structures, and by a large number of experts specialising in a wide range of disciplines. With this in mind, it is of the essence to balance the dichotomy of standardisation / uniformity, on the one hand, and of flexibility and appropriate individuality, on the other hand, when setting up a remuneration system.

As far as the payment of variable remuneration components goes, HIH has decided, in accordance with its corporate culture and considering the size of the company, to focus on flexibility and individuality to the extent permitted by labour law for employees in general and by regulatory law specifically for employees identified within the scope of application of the KAGB. A guaranteed variable remuneration will only be paid in exceptional cases in connection with the hiring of new employees, and even this arrangement will be limited to the first year.

The employment contracts of the managing directors specify both fixed and variable components, with the variable components pegged to the performance of the Company and generally limited to 50% of their total remuneration. Variable remuneration components will principally be disbursed only if the company's short- and medium-term risk outlook permits doing so. The assessment will focus particularly on the company's success and the performance of the respective managing director in the current and previous year, the current risk outlook and the corporate planning for the coming years. In other words, their personal performance is subject to a sustained assessment over several years. The actual amounts disbursed are defined within the framework of a management appraisal involving the senior management and the annual general meeting or the supervisory board. In case of early termination of the contract, personal shortcomings will not be rewarded but will negatively influence the negotiation (e. g. when defining the amount of variable remuneration). The pension schemes of managing directors are not governed by their contracts of employment. The managing directors are prohibited from entering into personal hedging strategies or from taking out remuneration- and liability-related insurance policies that undermine the alignment of a person's remuneration with that person's risk-behaviour as specified in the remuneration rules. Moreover, the variable remuneration will not be paid out in the form of instruments or via processes whose purpose is to make it easier to bypass the requirements of the AIFMD Guidelines. Not least, the latter aspect must be seen against the background that the principle of proportionality is applied as described in item 3.

In addition, there are performance-based remunerations with a medium-term horizon that depend on the provisions agreed in certain fund rules, as the case may be. In principle, parts of the performance-based remuneration earned by the AIFM company are available for disbursement. Their allocation is proposed by the director of a given fund. Beneficiaries generally tend to include the competent fund manager, the senior management, and other high-performers of the AIFM company.

Our remuneration guideline is dovetailed with our mission statement and our ESG strategy, which is why we have set out criteria that will come into play whenever salaries are reviewed or the disbursement of discretionary bonuses is considered.

Variable remuneration will not be disbursed in cases of gross breach of duty, immoral behaviour or breaches of compliance or governance regulations.

Senior staff will not be rewarded with a severance payment in cases of mismanagement. Nor will short-lived profits and the tolerance of disproportionately high risks be rewarded.

Another aspect is the way the company handles risks whose occurrence can actually or potentially have significant adverse consequences for the asset, financial and earnings position as well as for the reputation of a company and fund; this includes climate-related threats in the form of physical risks and transition risks.

On top of that, ESG criteria are integrated into the requirements of the respective business units in which company staff is employed. Examples for such criteria are talent management, diversification and inclusion, customer satisfaction, and accountability in corporate governance. The relevant criteria include targets for the reduction of our carbon emissions, or our social commitment.

As outlined above, the remuneration policy is consistent with a sound and effective risk management and discourages risk-taking.

The remuneration policy in practice is discussed once a year in conjunction with the staff appraisals in March of each year as part of the senior management meeting, the proceedings being documented in the minutes. Parts of this remuneration guideline are also disclosed on the homepage.