

Pensions CIV Sectoral Joint Committee

Item no: 9

Remuneration Committee Policy & Terms of Reference

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Summary	This report informs the committee of the first meeting of London CIV's Remuneration Committee and provides the draft Terms of Reference and Remuneration Policy for information.
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Recommendations	The committee is recommended to consider and note the contents of this report.
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Remuneration Committee Policy & Terms of Reference

Introduction

1. The inaugural meeting of London CIV's Remuneration Committee (RemCo) is scheduled for 12 October 2016.
2. Members of the Committee are the Chair and two Vice Chairs of the London Councils' Pensions CIV Sectoral Joint Committee, two independent non-executive directors of London CIV (Eric Mackay and Carolan Dobson) and the Chair of London CIV (Lord Bob Kerslake). Eric Mackay (in line with the committee's terms of reference) has been appointed as Chair.
3. For information the company's draft Remuneration Policy and Remuneration Committee Terms of Reference are attached as Annexes A & B.
4. The draft Terms of Reference have been drafted in line with Institute of Chartered Secretaries and Administrators guidance, adjusted to be appropriate for the governance structures of London CIV.
5. The draft Remuneration Policy has been drafted with advice from the Company's legal advisors (Eversheds LLP). It is compliant with the requirements of the Alternative Investment Managers Directive (AIFMD) as implemented in the UK by SYSC 19B of the Financial Conduct Authority (FCA) Handbook, and including any related Financial Conduct Authority (FCA) or European Securities and Markets Authority (ESMA) or other applicable requirements or guidelines, otherwise known as the Remuneration Requirements.
6. The Remuneration Committee has been invited to review both documents after which they will be submitted to the Board for final adoption. Any substantive recommendations for amendments from the RemCo will be provided as a verbal update to this committee.

Recommendations

7. The committee is recommended to consider and note the contents of this report.

Legal Implications

8. There are no legal implications for London Councils.

Financial implications

9. There are no financial implications for London Councils.

Equalities Implications

10. There are no equalities implications for London Councils

Remuneration Committee Terms of Reference

1. Objective

- 1.1. The objective of the Remuneration Committee (the “**Committee**”) is to set the principles and parameters of the Remuneration Policy (the “**Policy**”) for London LGPS CIV Ltd. (the “**Company**”), and to oversee the Policy and outcomes for those colleagues specified in these Terms of Reference.

2. Membership

- 2.1. Appointments to the Committee are made by the Company Board (the “**Board**”), in consultation with the Chair of the London Councils Pensions CIV Sectoral Joint Committee (the “**PSJC**”), and shall be for a period of up to three years extendable by no more than two additional three-year periods, so long as members (other than the Chair of the Board, if he or she is a member of the Committee) continue to be independent.
- 2.2. The Committee shall comprise at least five members, being a minimum of two independent non-executive directors and a maximum of three members appointed from the PSJC to act as shareholder representatives. The Chair of the Board may also serve on the Committee as an additional member if he or she was considered independent on appointment as Chair.
- 2.3. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the chief executive, the head of human resources and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary.
- 2.4. The Board shall appoint the Committee Chair who shall be an independent non-executive director. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting who would qualify under these terms of reference to be appointed to that position by the Board. Neither the Chair of the Board nor a member of the PSJC shall be Chair of the Committee.

3. Secretary

- 3.1. The Company secretary or his or her nominee shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

4. Quorum

- 4.1. The quorum necessary for the transaction of business shall be three.

5. Meetings

- 5.1. The Committee shall meet at least once a year and otherwise as required.
- 5.2. Additional meetings of the Committee shall be summoned at the request of any member of the Committee at the discretion of the Committee Chair.

6. Notice of meetings

- 6.1. Meetings of the Committee shall be called by the secretary of the Committee at the request of the Committee Chair.
- 6.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

7. Minutes of meetings

- 7.1. The secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance. The Committee Secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 7.2. Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board unless in the opinion of the Committee Chair it would be inappropriate to do so.

8. Annual general meeting

- 8.1. The Committee Chair should attend the annual general meeting to answer any shareholder questions on the Committee's activities.

9. Duties

- 9.1. The Committee shall:
 - 9.1.1. Have responsibility for overseeing effective implementation of the Company Remuneration Policy.
 - 9.1.2. Recommend and monitor the level and structure of remuneration for the Company's Chief Executive, Chair and all executive directors. The Board itself shall determine the remuneration of the non-executive directors, taking advice from the PSJC members of the Remuneration Committee. No director shall be involved in any decisions as to their own remuneration.
 - 9.1.3. In making such recommendations, take into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the Code and associated guidance. The objective shall be to attract, retain and motivate executive management of the quality required to run the Company successfully without paying more than is necessary, having regard to views of shareholders and other stakeholders. Recommendations should have regard to the risk appetite of the Company and alignment to the Company's long strategic term goals.
 - 9.1.4. Review the on-going appropriateness and relevance of the remuneration policy.

- 9.1.5. Within the terms of the agreed policy and in consultation with the Chair and/or chief executive, as appropriate, determine the total individual remuneration package of each executive director, the Company Chair and other designated senior executives including bonuses, and/or other incentive payments.
- 9.1.6. Obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity. To help it fulfill its obligations the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary at the expense of the Company but within any budgetary restraints imposed by the Board.
- 9.1.7. Be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee.
- 9.1.8. Approve the design of, and determine targets for, any performance-related pay schemes operated by the Company and approve the total annual payments made under such schemes.
- 9.1.9. Ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
- 9.1.10. Oversee any major changes in employee benefits structures throughout the Company or group.
- 9.1.11. Work and liaise as necessary with all other Board Committees.

10. Voting

- 10.1. Decisions should normally be reached on a consensus basis. In the event of a non-consensus, decisions on any matter can be reached on a majority basis, with the Chairman having a casting vote in the event of a tie. A committee member who remains opposed to a proposal or recommendation after a vote can ask for his/her dissent to be noted in the minutes.
- 10.2. Any person invited to attend meetings, and who is not a member, is not entitled to vote on any matter before the committee.

11. Reporting responsibilities

- 11.1. The Committee Chair shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 11.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.3. The Committee shall ensure that provisions regarding disclosure of information, including pensions, as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Code, are fulfilled and produce a report of the Company's remuneration policy and practices to be included in the Company's annual report and ensure each year that it is put to shareholders for

approval at the AGM. If the Committee has appointed remuneration consultants, the annual report of the Company's remuneration policy should identify such consultants and state whether they have any other connection with the Company.

- 11.4. Through the Chair of the Board, ensure that the Company maintains contact as required with its principal shareholders about remuneration. 27

12. Other matters

12.1. The Committee shall:

- 12.1.1. Have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required.
- 12.1.2. Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members.
- 12.1.3. Give due consideration to laws, regulations and any published guidelines or recommendations regarding the remuneration of directors of non-listed companies including but not limited to the provisions of the Code, and Disclosure and Transparency Rules as well as guidelines published by the Association of British Insurers and the National Association of Pension Funds and any other applicable rules, as appropriate.
- 12.1.4. Arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

13. Authority

- 13.1. The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference.

14. Relationship with the Board

- 14.1. The Board will determine the role of the Committee and may amend these Terms of Reference as necessary notwithstanding that the Committee shall review its Terms of Reference annually.
- 14.2. To the extent that the Committee undertakes tasks on behalf of the Board, the results should be reported to and considered by the Board. In doing so the Committee should identify any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken.

Remuneration Policy

1. Background

- 1.1 This Remuneration Policy of London LGPS CIV Limited (the “**Company**”) is designed to ensure that the Company complies with the remuneration requirements imposed by the Alternative Investment Fund Managers Directive (AIFMD) as implemented in the UK by SYSC 19B of the Financial Conduct Authority (FCA) Handbook, and including any related Financial Conduct Authority (FCA) or European Securities and Markets Authority (ESMA) or other applicable requirements or guidelines (the “**Remuneration Requirements**”).
- 1.2 The Company is committed to ensuring that its remuneration policies and practices are consistent with and promote sound and effective risk management and also ensure that the Company is able to recruit, retain and motivate staff of the caliber necessary to achieve its corporate objectives.

2. Responsibility and Review

- 2.1 Responsibility for setting, oversight and supervision of the Company Remuneration Policy lies with the Board of the Company (the “**Board**”) which has delegated some functions and responsibilities to the Remuneration Committee.
- 2.2 No amendment to or exception from this Remuneration Policy may be made without the approval of the Board.
- 2.3 The Remuneration Committee is responsible for overseeing effective implementation of the Company Remuneration Policy in accordance with the Committee’s Terms of Reference.
- 2.4 The Company Remuneration Policy will be subject to at least annual review by the Remuneration Committee, which will report on that review to the Board, to assess whether it:
 - (a) operates as intended; and
 - (b) remains compliant with the Remuneration Requirements.
- 2.5 Compliance with the Remuneration Policy may also be subject to compliance monitoring from time to time by the Compliance team.

3. Corporate Practices and requirements applicable to employees

Principles

- 3.1 In respect of all staff, the Company’s remuneration arrangements are based on the principle that remuneration arrangements must be aligned with the Company’s risk appetite and the business strategy, objectives, values and interests of the Company and the AIFs it operates, and the avoidance of conflicts of interest. The remuneration arrangements must not encourage risk-taking which is inconsistent with the risk profile of the Company or the AIFs it manages.

Base Salary / Fees

- 3.2 Base Salary of employees who are not directors or Code Staff will be set by the Board and in accordance with the business requirements of the Company.

Consideration will be given to any increased risk in the business and how this remuneration would be linked to the risk of the business.

- 3.3 Base Salary of directors and Code Staff will be set by the Board, under advice from the Remuneration Committee, and in accordance with the business requirements of the Company. Consideration will be given to any increased risk in the business and how this remuneration would be linked to the risk of the business.

Bonuses

- 3.4 Bonuses (where applicable) will be approved by the Board, under advice from the Remuneration Committee. All bonus targets must be documented and available for inspection if required.
- 3.5 If there is performance related pay of Code Staff this will be based on a combination of the assessment of the performance of the individual and of the business unit or AIF concerned and of the overall results of the AIFM. When assessing individual performance, financial and non-financial criteria are taken into account.
- 3.6 The assessment of performance for Code Staff will be within a multi-year framework that is appropriate to the life-cycle of the AIFs managed by the Company to ensure that the assessment process is based on longer term performance.

Employer Pension Contributions

- 3.7 These will be subject to the Regulations pertaining to the Local Government Pension Scheme in accordance with the employee's terms and conditions which should be aligned with the Company's business strategy, objectives, values and long-term interests of the AIFs. These contributions are a fixed component of total remuneration. The Company does not provide discretionary pension benefits.

Retention Pay and Guaranteed Variable Remuneration

- 3.8 Any retention pay for staff must comply with the Remuneration Requirements. Retention awards for all staff must be documented appropriately and available for inspection if required.
- 3.9 Any guaranteed variable remuneration will only be paid if:
- it is exceptional;
 - occurs only in the context of hiring new staff; and
 - is limited to the first year of service.

Severance Payments

- 3.10 Payments on exiting the business, including in relation to pension arrangements, must also be in line with the Remuneration Requirements as well as complying with employment legislation. Consideration must be given to the timing of such payments and deferrals may be required to ensure that there is no breach of the Remuneration Requirements.
- 3.11 It is the Company's policy that payments related to the early termination of a contract reflect an employee's legal entitlements and his or her performance achieved over time and are designed in a way that does not reward failure.

Control functions

- 3.12 Staff responsible for risk management, compliance, internal audit and similar functions are compensated according to the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

Personal investment strategies

- 3.13 The Company will ensure that its Code Staff undertake not to use personal hedging strategies or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

Anti-avoidance

- 3.14 The Company will ensure variable remuneration to Code Staff is not paid through vehicles or methods that facilitate the avoidance of the Remuneration Requirements.

4. Delegates

- 4.1 The Company will determine whether delegates are subject to regulatory requirements in respect of remuneration that are equally as effective as those in the Remuneration Requirements. Where a delegate is subject to the CRD and MiFID remuneration guidelines (as per the FCA guidance) this will be taken to be as effective as the Remuneration Requirements.
- 4.2 The relevant delegates are those firms the Company has we have delegated investment management and these firms are subject to either the CRD or MiFID remuneration guidelines.

5. Data Protection and disclosure

- 5.1 Details of any remuneration may be shared with the FCA. In addition, the Company's annual report may contain certain AIFMD required disclosures relating to remuneration.

6. Code Staff

- 6.1 Code Staff comprise those categories of staff whose professional activities have a material impact on the risk profiles of the Company or of the AIFs the Company manages. This includes senior management, risk takers, control functions¹, and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers.
- 6.2 The Code staff for the Company are:
- the non-executive directors;
 - Hugh Grover;
 - Brian Lee; and
 - Julian Pendock.
- 6.3 After consideration of the FCA's proportionality guidelines as set out in SYSC 19B.1.13A and within the General guidance on the AIFM Remuneration Code² it has been decided that the Pay-out Process rules do not apply to the Company. The reason for this is that the following two conditions are met for Code Staff:

¹ staff (other than senior management) responsible for risk management, compliance, internal audit and similar functions within an AIFM

² <https://www.fca.org.uk/publication/finalised-guidance/fg14-02.pdf>

- variable remuneration for each Code staff member is no more than 33% of total remuneration; and
- total remuneration is no more than £500,000.

7. Remuneration definition

7.1 For the purposes of comply with the Remuneration Requirements, remuneration should be understood to consist of:

- all forms of payments or benefits paid by the Company,
- any amount paid by the AIF itself, including carried interest, and
- any transfer of units or shares of the AIF.

7.2 in exchange for professional services rendered by the Company's Code Staff.