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Position Paper
Remuneration Problems within The UCITS V regime

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General remarks submitted by:

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Introduction
Beleggersvereniging VEB (*the Dutch Investors' Association*) was founded in 1924 with an objective to represent the interests of retail and institutional investors. Nowadays, VEB is the largest association representing investors in the Benelux. VEB is also a founding member of EuroInvestors (now: EuroFinuse) and EuroShareholders, pan-European organisations which represent retail investors and shareholders.

Position
To VEBs' opinion the central theme is investor protection through alignment of interests between investors, fund providers and 'key investment personnel'.

Performance is the missing link
The missing link to accomplish this intended alignment is performance.

Investors main interest is a good performance (risk weighted performance), which is best served by low fund costs. The main interest for fund providers and 'key investment personnel' is a higher possible income, which keep fund costs at current high levels. This is a clear example of conflict of interests.

By incorporating performance as an important determent of income for fund providers as well as 'key investment personnel' a better alignment of interest between the three mentioned parties can be achieved.

In practice this will take fund providers to implement a fee structure which constitutes a performance fee (preferably symmetric or has a high watermark). The variable component of the remuneration package for 'key investment personnel' should largely depend on performance.

Therefore, income for fund providers and 'key investment personnel' will depend for a substantial amount on performance. This will provide an important focus on delivering a better performance and a strong incentive to lower fund costs, which automatically will improve net performance.

Definition 'key investment personnel'
VEB wants to introduce the definition of 'key investment personnel' which is a more strict definition of staff personnel, which is used in the proposal and includes senior management, risk takers, control functions, and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers.

'Key investment personnel' includes employees at fund or subfund level and consists of all decision takers or (fund managers or those who take the real investment decision), investment policy advisors and personnel which can exercise influence on the above mentioned employees (analysts).

Amendments to the proposal

- Disclose composition of 'key investment personnel' in KIID and/or annual report.
- Fully disclose remuneration of 'key investment personnel'. The structure of the remuneration package should be in the KIID. The actual yearly and long term remuneration can be best disclosed in the annual report.
- Fully disclose holdings of 'key investment personnel' in own funds in the annual report.
- Variable component of remuneration package should be largely (75 percent) based on performance. We recognize this can have an undesired side effect of excessive risk taking by the investment personnel.

  In VEBs' opinion the above mentioned side effect can be mitigated by a strong supervision model (supervisory board and compliance department). An incentive for strong risk control can be introduced by incorporating a performance fee which is preferably symmetric or has a high watermark. Further, performance related compensation should be linked to the risk weighted outperformance of a relevant benchmark measured over a longer period (life cycle/investment horizon of the fund) and payment should be deferred over a longer period (three to five year at a minimum).
- Variable component of remuneration package should not depend on business metrics like net inflows or profit of the management company.
- Payment of any variable compensation should largely (at least 50 percent) be in units of the managed fund or any alternative fund provided by the asset management company, combined with a lock up period of at least five years.

- **Article 14b.1.b → we don't agree**
  the remuneration policy is in line with <u>the business strategy, objectives, values and interests of the management company and the UCITS it manages</u> or the investors of such UCITS, and includes measures to avoid conflicts of interest;

  Variable component of remuneration package should not depend on business metrics.

- **Article 14b.1.g → we don't agree**
  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 <u>the business unit</u> or UCITS concerned and of <u>the overall results of the management company</u>, and when assessing individual performance, financial as well as non-financial criteria are taken into account;

  Variable component of remuneration package should not depend on business metrics.

- **Article 14b.1.h → we agree**
  the assessment of performance is set in a <u>multi-year framework appropriate to the life-cycle</u>

- *of the UCITS managed by the management company in order to ensure that the assessment process is based on longer term performance and that the actual payment of performance-based components of remuneration is spread over a period which takes account of the redemption policy of the UCITS it manages and their investment risks;*

- **Article 14b.1.m → we agree**
  subject to the legal structure of the UCITS and its fund rules or instruments of incorporation, a substantial portion, and in any event at least 50% of any variable remuneration consists of units of the UCITS concerned, or equivalent ownership interests, or share-linked instruments or equivalent non-cash instruments, unless the management of UCITS accounts for less than 50% of the total portfolio managed by the management company, in which case the minimum of 50% does not apply.

  The instruments referred to in this point shall be subject to an appropriate retention policy designed to align incentives with the interests of the management company and the UCITS it manages and the investors of such UCITS. Member States or their competent authorities may place restrictions on the types and designs of those 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 (n) and the portion of the variable remuneration component not deferred;

- **Article 14b.1.n → we agree**
  a substantial portion, and in any event at least 40% (more → 75 percent of the compensation which is linked to long term performance), of the variable remuneration component, is deferred over a period which is appropriate in view of the life cycle and redemption policy of the UCITS concerned and is correctly aligned with the nature of the risks of the UCITS in question.

  The period referred to in this point shall be at least three to five years unless the life cycle of the UCITS concerned is shorter; 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 shall be deferred;