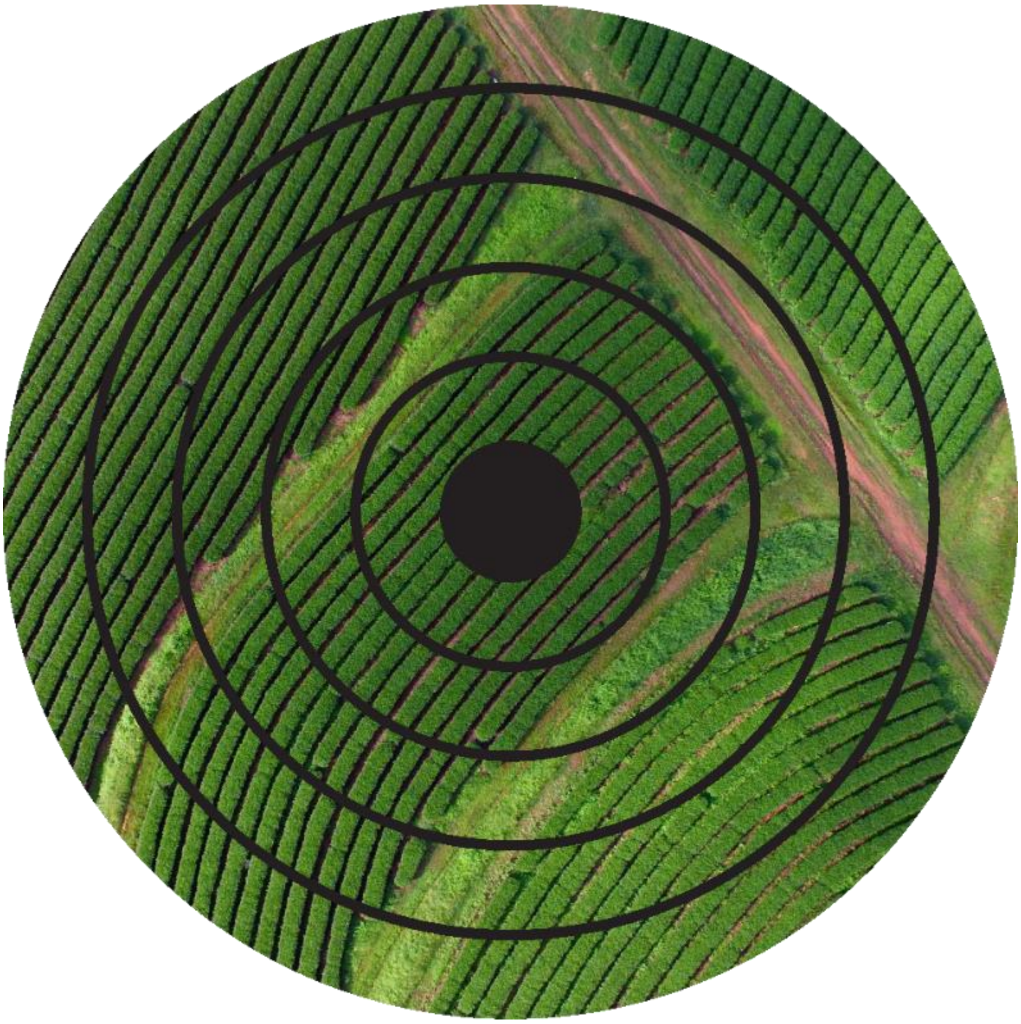
CDC
Investment works

CDC Remuneration Framework

July 2017



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1. Introduction

This paper sets out the Remuneration Framework for CDC Group plc (CDC) for the period from 1 May 2017 onwards. It covers:

- The agreed philosophy that underpins the Framework;
- The different elements of remuneration for all staff (including the CEO) and how each element works in practice;
- Governance and authorisation processes for remuneration within CDC;
- Monitoring and review mechanisms by the shareholder, Department for International Development (DFID) and UK Government Investments (UKGI).

2. Agreed Philosophy

There is a strong philosophical underpinning for this framework, which is intended to clearly support CDC's achievement of its developmental and financial objectives:

- It should enable the recruitment and retention of individuals of the calibre that will allow CDC to achieve its mission - to achieve impressive developmental impact in challenging places through targeted, high quality investing skills. Without the right calibre of individuals, CDC will not achieve its mission and is likely to deplete its balance sheet through poor investment judgement.
- For the Investment Teams and the senior Transaction Support and Corporate staff, it is intended to attract employees with the same level of talent and expertise as those employed in fully commercial private equity investors and fund of funds and international commercial banks. However, the framework is not benchmarked to these industries and therefore it is anticipated that those who join CDC will be taking a significant discount (often greater than 50%) to their market worth. The more junior Transaction Support and Corporate staff are benchmarked to general industry and not expected to take the same level of discounts.
- CDC's approach to compensation is made explicit during the hiring process and in internal communications. CDC is not a place for individuals motivated solely by personal financial gain. It is for those who are prepared to accept this significant discount because they want to use their skills to achieve meaningful economic and development impact in Africa and South Asia.
- It is recognised that whilst these unusual individuals do exist, they don't exist in great numbers and therefore CDC will have to invest significantly in recruitment efforts to identify them and then will have to create a highly attractive organisation and culture to retain them. It is important to note that whilst CDC is 100% owned by the UK Government; it has a private sector culture commensurate with its aspiration to be the highest quality investment organisation. CDC does not recruit from or benchmark compensation to the UK Civil Service, or the wider UK Public Sector.
- CDC is an exceptionally long term business where much of the know how is in market knowledge and relationships. A high employee churn rate will significantly damage CDC's ability to achieve its mission.

The long term element of compensation is deliberately designed so that the discount lessens over time, to encourage retention and to avoid CDC being an academy that some of the best in the industry pass through for a short period.

- The targets that drive the Long Term Development Performance Plan (LTDPP), Development Potential and Development Outcome are designed to support the strategic direction of CDC to invest as a patient investor. It is agreed that the targets have been set at a level of stretch where achievement will demonstrate that CDC is meeting the challenging objectives agreed for it in the Investment Policy agreed with DFID.

3. Structure of Remuneration

CDC's remuneration consists of three elements:

- Base salary
- Long Term Development Performance Plan (LTDPP)
- Other benefits

4. Base Salary

Individual base salaries reflect job responsibilities, the experience and skills of the individual relative to other CDC employees, market rates of the comparator group (as described in section 10) and the sustained level of individual performance. Each tier of functional titles has a band of around 10%-20% to allow progression year on year if performance warrants, before being considered for promotion to the next level.

CDC has designed an annual process for stretching individual objectives to be set annually and reviewed frequently in order to ensure that managers are discussing performance and development with every person at CDC. Promotion indicators exist for every band of employee. Promotion and progression related base salary increases for all staff up to and including Directors are reviewed annually by the CDC HR Committee (made up of senior CDC executives) and then by the CDC Board People development and Remuneration Committee ("PremCo"). Promotions are never made purely on tenure, but on performance, absolute and relative to peers. Exceptional individual progression is assessed and recognised midyear through the same process. The PremCo also reviews the CEO compensation package annually.

Annual increases are intended to keep base salaries in line with inflation (with the exception of increases earned as a result of promotions and progressions). The expectation is that over a three year rolling period, average salary increase for each band and position will be consistent with, but will not exceed, the average UK CPI.

5. Long Term Development Performance Plan (LTDPP)

5.1 Purpose of the Long Term Development Performance Plan ("LTDPP ")

The LTDPP has been agreed between DFID and CDC to align the interests of CDC senior staff and DFID by incentivising CDC staff to (a) invest for long term development and financial impact; (b) make those investments financially successful because it is agreed that actual development impact is typically well correlated with financial success; and (c) protect the value of CDC's balance sheet. It is also designed to encourage collaborative behaviour across CDC and act as a retention tool for CDC staff.

5.2 Positions Eligible for the LTDPP

The following positions will be eligible for the LTDPP:

a) all members of the CDC Executive Committee (ExCo);

b) all CDC Directors (i.e. employees sitting in CDC Band 3);

c) Managers (CDC Band 4) & Executives (CDC Band 5) in investment teams. Managers (CDC Band 4) in the Legal team, Responsible Investing and Strategy Teams (including ESG, Development Impact and Business Integrity teams).

Additionally, Managers (CDC Band 4) in all other Operations teams (including Finance, Comms, HR, Company Secretary and Business Services) will participate in a 50% plan ('the 50% plan') which mirrors the main LTDPP plan, but utilises a revised payment schedule, as set out below.

Anyone promoted to an LTDPP eligible position on 1 October or before will become eligible with effect from the date of their promotion.

5.3 Calculation of LTDPP Payment

For any year, an eligible employee will be entitled to a payment equal to (a) their applicable Maximum Amount multiplied by (b) CDC's Development Performance Percentage for such year.

LTDPP Payment = Maximum Amount x Development Performance Percentage

The 50% scheme will operate in an identical manner, however all payments will be divided by two.

5.4 Maximum Amount of LTDPP

The maximum amount any eligible member of CDC staff can be awarded for any year (such person's **"Maximum Amount"**) is based upon their length of employment at CDC in an eligible position after 1st January 2012, as shown in the chart below.

No. of years' employment after 1st January 2012	0-1	1	2	3	4	5	6	7	8	9	10+
% of Base Salary	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
% of Base Salary (50% scheme)	0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%

Employees who join CDC into an eligible position after 1st October in any year will begin accruing eligibility on 1st January of the immediately following year. Where an employee joins before 1 October or is promoted on or before 1st October in any year, the employee will begin accruing eligibility that year but the Maximum Amount shall be reduced by 0.833% for each full month between 1st January and an employee's date of joining or promotion in the employee's first year of employment in an eligible position.

*Maximum Amount = % of Base Salary - (No. of full months not employed in 1st year of eligibility * 0. 833%)*

5.5 Development Performance Percentage

CDC's Development Performance Percentage is composed of CDC's Development Potential Percentage **("DPP")** and CDC's Development Outcome Percentage ("DOP"). In the early years of the scheme financial performance was driven by investments made prior to the strategy, so DPP was given greater weight from 2014 to 2017.

Year of calculation (payment early in subsequent year)	**2014**	**2015**	**2016**	**2017**	**2018**	**Thereafter**
Development Potential Percentage Weight (DPPW)	90%	80%	70%	60%	50%	50%
Development Outcome Percentage Weight (DOPW)	10%	20%	30%	40%	50%	50%

The Development Performance Percentage for any year shall be calculated as follows:

*Development Performance Percentage = (DPP * DPPW) + (DOP * DOPW)*

5.6 Adjustments to the Development Performance Percentage

a) **Investment Rate Reduction.** The Board of CDC will reduce the DPP in any year if it concludes that the executive team of CDC intentionally and significantly reduced the investment rate over the preceding three years specifically for the purpose of increasing the DPP. In making this judgement, the Board will have regard to CDC's investment forecasts (as updated from time to time and shared with DFID) and to market conditions (both generally and specifically)

b) **Persistent Loss Reduction.** In any year in which the **"Loss Trigger"** has occurred (as at the end of the immediately preceding year) no LTDPP will be payable. The ***"Loss Trigger"*** shall occur if for any year the sum of the Annual Investment Returns (as defined in Paragraph xi below) for each of the last twelve years divided by twelve is less than 0%.

5.7 Calculation of the DPP (Development Potential Percentage)

The DPP seeks to measure the development impact potential of CDC investments (Target 1 in the Investment Policy). If the Aggregate Development Score achieved in any rolling three-year period is 2.4 the DPP shall equal 80%; if the score is 2.5 the DPP shall equal 90%; between 2.4 and 2.5 the DPP increases in a straight line between 80% and 90%. Above 2.5 the Board of CDC shall have discretion to allocate some or all of the remaining 10% of the DPP based on the extent to which they feel that CDC has substantially outperformed expectations. In making this decision the Board will have regard to the Development Score and the anticipated broader development impact of the investments made during the period.

Starting with the LTDPP payments made in 2018 (relating to work undertaken in 2017 and before), the Board of CDC will determine the allocation of the remaining 10% of the DPP based upon the performance of the innovative higher impact, higher risk investments under qualifying strategies as judged by the CDC Board's PremCo and Development Committee. This will be revisited once there is greater experience of the pace and expectations of investing under this investment policy.

If the Aggregate Development Score achieved in that period is less than 2.4, the DPP shall equal 0.

Aggregate Development Score	**DPP**
Below 2.40	0%
2.40	80%
2.40 - 2.50	80% - 90%*
Above 2.50 with Board agreement	90 - 100%

*Calculated on a straight line basis

The Aggregate Development Score calculated by CDC for any year shall be verified by an external evaluator or auditor pursuant to Paragraph C2 of the Investment Policy.

5.8 Calculation of the Aggregate Development Score

The ***"Aggregate Development Score"*** will be calculated by multiplying the Development Score of each Qualifying Investment (between 1 and 4) by the percentage that Qualifying Investment is of Total Qualifying Investments during the period and summing the total. ***"Qualifying Investments"*** for any year shall be all investments made either (i) in that year and the preceding two years or (ii) since 1st January 2012 (whichever period is shorter) by CDC directly or by a fund manager or other intermediary with CDC funds where the original commitment was made by CDC after 1st January 2012. In calculating Qualifying Investments, an investment shall be deemed made when it is disbursed rather than when it is committed.

For purposes of calculating an Aggregate Development Score, an investment will be deemed made (i) in the case of an equity, quasi-equity or debt instrument, grant, or similar instrument, at the time and in the amount(s) as funds are disbursed by CDC in respect of such investment and (ii) in the case of guarantees and other similar unfunded risk-sharing arrangements, at the time and in the amount(s) as such investment is committed to by CDC.

5.9 The Development Score of an Investment

Investments made by CDC will be placed in one (or more) places on the **"Development Grid".** Its place on the Development Grid seeks to express the difficulty of making such an investment in a particular geography and the propensity to create employment of the applicable sector as a numerical score (the **"Development Score"**) between 1 and 4.

a) The Development Grid. The Development Grid is composed of two axes. The X axis allocates CDC's Eligible Countries into four categories, D through A. The Y axis allocates business sectors into three categories, "Low" to "High". The allocation of business sectors will be refined by CDC from time to time to add new sectors. Squares on the grid are then allocated a **"Development Impact Category"** (from 1 through 4), which are indicated as colours on the Development Grid. Each Development Impact Category has a score which relates to its number (from 1 through 4).

b) Calculation of a Development Score. A Development Score can be calculated for any investment by locating it in one (or more) Development Impact Categories on the grid. If it is located entirely in one such category, it receives the associated score. If it is located in more than one category, it receives the average of the scores weighted by the amount of the investment in each such category.

The Development Score for each investment will be determined by CDC in its reasonable judgment; (i) in the case of direct investments or loans, at the time such investment or loan is approved by CDC, and (ii) in the case of any investment by a fund (or other intermediary) promptly following CDC's receipt of notice of such investment and information sufficient to enable CDC to make such determination. In determining the Development Score, CDC may elect to treat the investment (the **"Anchor Investment"**) in combination with projected future CDC investments in the same entity (or related entities). In such case, the Anchor Investment will be given the score that, in CDC's reasonable judgment, the future CDC investments are projected to have. By way of example, an investment made into an entity located in South Africa with the intention that such entity will expand its operations into Sierra Leone may be treated (for purposes of calculating a Development Score) as being made in Sierra Leone rather than South Africa.

In determining the Development Score of an investment, all reasonable relevant factors shall be considered including (without limitation): (i) the specific nature of the activities, (ii) the source(s) of revenue of each of the related entity's businesses, (iii) backward and forward linkages (including the source of raw materials) and such factors shall be weighted as appropriate in all the circumstances.

5.10 Calculation of the DOP (Development Outcome Percentage)

The DOP seeks to measure the development outcome of CDC investments (Target 2 in the Investment Policy). The DOP shall equal 1 in each year in which CDC achieves a Cumulative Investment Return on its portfolio of 3.5% or more. The DOP shall equal 0 in each year in which CDC achieves a Cumulative Investment Return on its portfolio of less than 3.5%.

5.11 Calculation of the Cumulative Investment Return

The ***"Cumulative Investment Return"*** for any year (a) up to 2021, shall equal the sum of the Annual Investment Returns for each year from and including 2012 divided by the number of such years and (b) for any year after 2021, shall equal the sum of the Annual Investment Returns for each of the last ten years divided by ten.

The ***"Annual Investment Return"*** for each year shall equal the aggregate amount of profits (realised and unrealised) derived from the investment portfolio in such a year divided by the value of the investment portfolio as at 31 December in the prior year. CDC's investment portfolio shall exclude assets held for persons other than CDC, investments made for Treasury purposes, cash and cash equivalents. Aggregate profits will be gross (before any deduction of taxes paid by CDC on capital gains, interest or dividends received within its investment portfolio).

The annual process relating to the Confirmation and Assurances that CDC has achieved its performance hurdles is set out in the Investment Policy (part C, section C4). In summary:

- The Board will confirm and demonstrate by written letter to DFID (a "Confirmation") the Development Potential Percentage and the Development Outcome Percentage, together with assurance (the "Assurances") from CDC's external evaluators and auditors.

Each eligible individual's entitlement under the LTDPP will then be calculated. These calculations will be signed off by the HR Committee and paid in the next monthly payroll following sign off.

6. Pension

6.1 Stakeholder Pension Arrangement

All UK employees of CDC are offered a non-contributory stakeholder pension arrangement - with employer contributions from 6-15%;

Age Band	**Company Contribution Rate**
Under 30	6%
30-39	9%
40-49	12%
50 and above	15%
MDs and CEO	15%

6.2 Taxed Pension Allowance (TPA)

CDC staff who have fix protected their lifetime pension allowance may opt to receive a cash payment in lieu of pension contribution. Such payments will be paid net of UK employer National Insurance contributions payable by CDC, and then taxed upon receipt at the recipients' marginal rate of tax, so this payment (the 'Taxed Pension Allowance', or TPA) is cost neutral to CDC, and attracts higher deductions for the individual than would a Company contribution to the pension scheme.

Staff at Band 3 and above who do not have fixed protection of their lifetime allowance, but who may reach annual allowance caps may also benefit from the TPA, and CDC retains discretion exceptionally to give access to the TPA to other employees who may be at risk of exceeding either the lifetime or annual allowance limits, subject to approval by the Chair of the People and Remuneration Committee of the Board.

7. Other Benefits

The following benefits in kind are offered to all UK employees. Benefits for employees in local offices overseas are kept as similar to these benefits as is possible, given local employment norms and availability. (See 10. below).

- Life assurance cover, which will pay a lump sum equivalent to between four and eight times salary in the event of death;

- Permanent health insurance, which provides cover in the event that an employee is unable, through ill-health, to continue to work for CDC;

- Private medical insurance, including a cash plan, which can include cover for family members (see detail below relating to CEO);

- Annual medical check-ups for all employees who frequently travel overseas;

- 30 days annual leave; and

- Sabbaticals lasting up to one month for employees with five years' service, and three months for those with ten years' service.

PremCo will review these benefits from time to time to ensure that they are in line with the comparator group. PremCo will advise DFID if any material changes are to be made to benefits offered to CDC employees.

8. CEO Reward

The CEO will receive a base salary of £268,475, with the potential to be adjusted for inflation in line with base salaries of staff as governed under section 4.

The maximum pay-out to the CEO in any one year will remain below £305,000 plus other benefits of up to 18% of base salary. The CEO's remuneration will be part of the benchmarking exercise to be undertaken every 3 years (as described in section 10).

The CEO will be eligible to participate in the benefits in kind described in section 6 above, with the exception that, whilst private medical insurance will be available for CDC travel overseas, the CEO will not have access to UK private medical insurance paid for by CDC.

9. Governance, Process and Authorisation Issues

The overall objective of this Remuneration Framework is to provide shareholder assurance that CDC's remuneration processes:

- provide robust oversight and scrutiny of remuneration levels within CDC by CDC's People development and Remuneration Committee (PremCo), including for the CEO and senior staff;
- ensure that the PremCo evidences compliance with this Remuneration Framework which has been agreed with the shareholder; and
- are transparent and comply with best practice.

This framework has been agreed between CDC and DFID taking advice from UKGI to ensure that the underlying principles are in line with best practice across Government.

CDC follows best practice corporate governance arrangements for a plc as set out under English law and the UK Corporate Governance Code where applicable. Under this structure, which makes a clear distinction between the different roles of the shareholder and the Board and which delegates powers to the Board and its committees, many responsibilities and obligations, including reporting to the shareholder, lie with the Board. Therefore, DFID looks to the CDC Board and PremCo to implement the Remuneration Framework. The CDC Board and PremCo have the authority to, and will:

- review performance targets for and payments to individuals (following advice from the HR Committee);
- set the appropriate balance between each element of remuneration;
- keep this Remuneration Framework and associated remuneration levels under review, to ensure that, inter alia, it aligns management's incentives with and supports DFID's wider objectives for CDC;
- if necessary, adjust and authorise changes to the overall remuneration structure in line with this Remuneration Framework and evidence this to DFID;

- prepare and publish a Remuneration Report in the Annual Report and Accounts following best practice, including the publication of base salary or fee, LTDPP and other benefits (including pension entitlements) for all Board Directors;

- invite senior officials from DFID and ShEx, to a meeting once a year with the People development and Remuneration Committee to discuss the Remuneration Framework and remuneration levels of the senior staff, and the alignment of the various pay cycles for basic salary and LTDPP; and

- confirm annually to DFID and ShEx CDC's compliance with the Remuneration Framework.

UKGI should review each year the terms of reference of PremCo, drawing on experience elsewhere in its portfolio to ensure that arrangements follow best practice for a plc, are appropriate to the business needs of CDC and meet the requirements of DFID.

10. Benchmarking

CDC will undertake a benchmarking exercise every 3 years (with the next one due at the end of March 2020 taking advice from external experts as required). The purpose of the benchmarking exercise is to allow a sense check on the overall CDC compensation package and form the basis for determining the salary tiers and bands for each role type. The comparator group for the Investment Teams and the most senior Transaction Support and Corporate staff will no longer include Private Equity firms and will be based on the Development Finance Institutions (DFIs) and International Financial Institutions (IFIs) which, in the Board's opinion, are most analogous to CDC in mission, size, strategy and location. The comparator group for the rest of the Transaction Support and Corporate staff will be the General Industry survey. Following the exercise, PRemCo will revert to DFID to confirm that the Remuneration Framework remains fit for purpose or if necessary may propose changes to DFID.

11. Local Offices Outside the UK

Following the expansion of regional offices which began in 2016 the following principles and processes will be followed in determining salaries, exchange rates and benefits:

Principles relating to new country operations:

a) UK Investment Director pegs will be used as the benchmark for overseas Directors and Managing Directors. This approach reinforces the equal value of our Directors throughout the world and gives consistency and simplicity

b) We will undertake local market benchmarking to identify appropriate salary structures for levels below Director, keeping a structure in each office which mirrors, as much as is possible, the band and level structure of all our offices, but with salary levels appropriate for the local market.

c) We will pay individuals in local currency except where the local currency is considered sufficiently unstable to warrant payment in USD or GBP. In the event we pay in USD or GBP we will not be responsible for conversion costs into local currency

Principles once an office is established in a country:

d) All staff in one country whose salaries are derived from UK pay scales should be using the same exchange rate and currency. Once pay scales are set in a country in local currency, these become the salary pegs for future hires.

e) All staff in overseas offices will have their salary reviewed and adjusted for local CPI on an annual basis, following a similar approach to that described for the UK in 4. above

f) An overall benchmarking review will be conducted every three years alongside the CDC benchmarking exercise described in 10 above, to ensure salaries are keeping in line with market trends, and to ensure that our senior people outside London (both local and international) have not been unacceptably disadvantaged by exchange rate movements over the longer term. At this point there will be a review of local salaries vs London equivalents, but this will be undertaken to provide a 'sense check' only. We do not see there to be an enduring link between salaries in different geographies.

g) If in the informal review we were to find that due to inflation overseas salaries were unacceptably or inappropriately higher than UK equivalents we would not reduce local salaries, but reserve the right not to offer an inflation – linked increase.

h) Local office benefits will be matched, where appropriate to those in 7 above, however our goal is that these are relevantly similar, reflecting our commitment to creating a positive working environment for CDC employees throughout the world, and not that they are identical. Local employment laws, norms and practices, as well as differing tax treatment of benefits in each location will lead to different specific benefits in different countries.

12. Remuneration Framework Revisions

This paper sets out the entire Remuneration Framework and therefore replaces previous frameworks and correspondence on remuneration issues. This Remuneration Framework will remain in place until a revised Framework is agreed by the CDC Board and DFID.

Agreed and signed on behalf of:

CDC Group plc

Date

DFID

Date

Investment works

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