KPMG

Analysis of Directors Remuneration & Board Composition

Irish UCITS Funds plc

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Introduction

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2019 was another successful year for the Irish asset management industry with the number of funds increasing from 7,290 to 7,569 and assets under management of over €2.9 trillion, of which UCITS structures represent 4,641 funds and €2.1 trillion assets under management.

We are pleased to provide our annual analysis on directors remuneration and board composition which is now in its third year. In 2019, we analysed over 200 publicly available financial statements of UCITS companies including over 2,300 subfunds and assets under management of €1.2 trillion.

Our guide offers a broad overview on board composition and directors remuneration and we hope that it is a beneficial benchmarking tool.

Garrett O'Neill

1. Remuneration regulation landscape

The asset and fund management industry has grown significantly, with surveys indicating about 65 percent growth between 2007 and 2019, to over USD 80 trillion in assets under management worldwide. Remuneration remains a key agenda item for the sector's regulators and below is a snapshot of some of the key regulatory requirements affecting Irish UCITS plcs.

UCITS V

At a European level, UCITS V, as transposed into Irish law, remains the key piece of legislation for UCITS plcs on the topic of remuneration. UCITS V focuses on 3 key areas one of which is in relation to remuneration, namely, the requirement to establish a remuneration policy which aligns with the interests of the UCITS and, in particular, how variable remuneration should be paid to certain "identified staff" of the UCITS' management company and delegates whose activities have a material impact on the risk profile of the UCITS or the UCITS management company. UCITS management companies that are considered significant in terms of their size are required to establish a remuneration committee, which is required to directly oversee the remuneration of the senior officers in the risk management and compliance functions.

Furthermore, UCITS V introduced a requirement that the total remuneration paid by the management company and by the UCITS, to its staff, be disclosed in the annual report of the UCITS (similar to the requirement under AIFMD). In a Q&A in May 2018, ESMA stated that an UCITS managers can ensure compliance with delegate remuneration disclosures by means of (a) equivalent local disclosure requirements on the delegate or (b) by appropriate contractual arrangements.

The Central Bank of Ireland has added Regulation 99 to the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1))(Undertakings for Collective Investment in Transferable Securities) Regulations 2019 (S.I.230 of 2019), published on 6th June 2019. This Regulation captures the requirement placed on UCITS Management Companies to ensure that its remuneration policies and practices as required in Regulation 24A of the UCITS Regulations are consistent with the ESMA Guidelines on sound remuneration policies under the UCITS Directive and AIFMD (Ref: ESMA/2016/411).

MiFID II / CRD IV

Markets in Financial Instruments Directive II ("MiFID II") entered into effect on 3 January 2018 and is one of the most significant regulatory initiatives undertaken by the European Union. MiFID II updates the existing MiFID framework and addresses issues in relation to transparency, investor protection and market infrastructure as well as introducing new corporate governance requirements for investment firms.

Investment firms that are subject to MiFID II may already be subject to similar remuneration requirements under CRD IV and/or UCITS V. Such firms have an obligation to have remuneration policies in places which are implemented and overseen by management bodies.

They are also required to incorporate measures to avoid conflicts of interest and require an appropriate balance between fixed and variable remuneration. Any incentive payments should be calibrated on the basis of both quantitative and qualitative criteria.

In addition, MiFID II focuses on staff who might have a material impact directly or indirectly on investment or ancillary "services" provided to clients and any conflicts of interest that might arise on the basis of that staff member's remuneration and the interests of the client (MiFID Article 24(10) and MiFIR Article 27).

As we see increased focus on the implementation of MiFID II requirements, the European Securities and Markets Association issued a consultation paper on 15 July 2019, on certain aspects of the compliance function requirements under MiFID II. MiFID firms remuneration policies and procedures are included within the scope of this consultation paper.

EU Investment Firm Regulations

In November 2019, the European Council and Parliament agreed the Investment Firm Regulations and the Investment Firm Directive. The IFD and the IFR were published in the Official Journal of the European Union on 5 December 2019 and are expected to come into effect in 2021.

For most existing investment firms, the IFD and IFR will replace the existing prudential requirements for investment firms set out in the Capital Requirements Regulation ("CRR") and CRD IV, and will also amend MiFID II and the Markets in Financial Instruments Regulation (600/2014) ("MiFIR"). Although for many asset management firms, who would fall under the non-systemic or Class 2 and Class 3 firms, the requirements will remain similar to the MiFID provisions.

The provisions addressed to remuneration are detailed in Articles 23 to 32 of the IFD. These requirements revise the current governance and remuneration requirements, set out in Articles 74 to 96 of the CRD.

During EU discussions on this legislation a proposal to cap bonuses for bank-owned asset managers ('Class 1 investment firms) was rejected. Instead, the new rules, permit NCAs to impose a cap on individual firms if they are not happy with that firm's remuneration policies.

In addition, Class 2 firms are required to implement policies with strict criteria for setting an "appropriate" ratio of fixed to variable remuneration, including certain restrictions. These restrictions are similar to those in the AIFMD and UCITS Directives and are referred to as "pay-out process" provisions.

The new rules also require shares and derivative options to represent at least 40 percent of variable bonuses, and that at least half of bonuses should be deferred over a five-year period.

Companies Act 2014

As with previous publications of this report we note that the Companies Act 2014 ("the Act") increased disclosure requirements in relation to directors' remuneration.

Section 305 of the Act provides for the requirement for directors' remuneration disclosures in the financial statements. A considerable change under the Act required that Company accounts disclose not only the remuneration received by the Director but also reflect any payments to or receivable by third parties for services of directors of the company or any of its subsidiaries or otherwise in connection with the management of the company (or its subsidiaries).

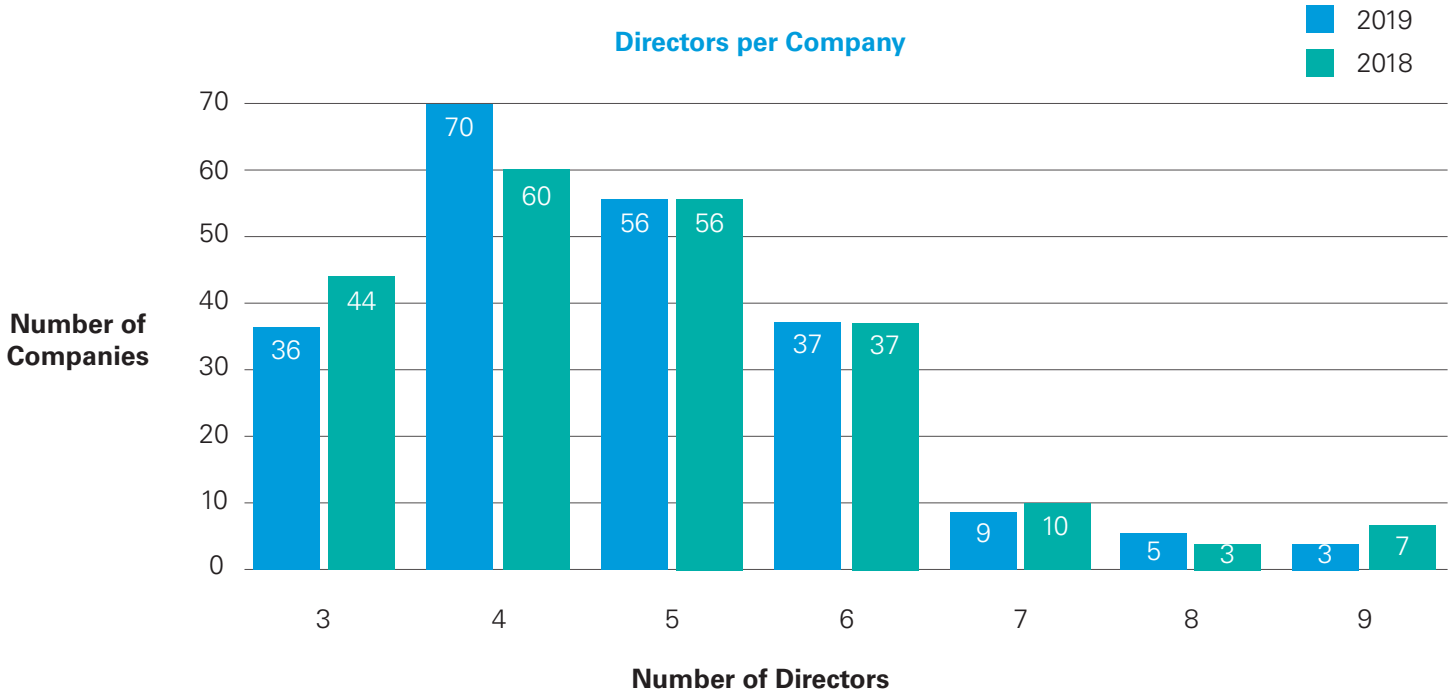
Irish UCITS plcs have to assess if any of their payments to an administrator, investment manager or third party service provider were payments for services of directors.

These requirements have not substantively changed or been amended since January 2019.

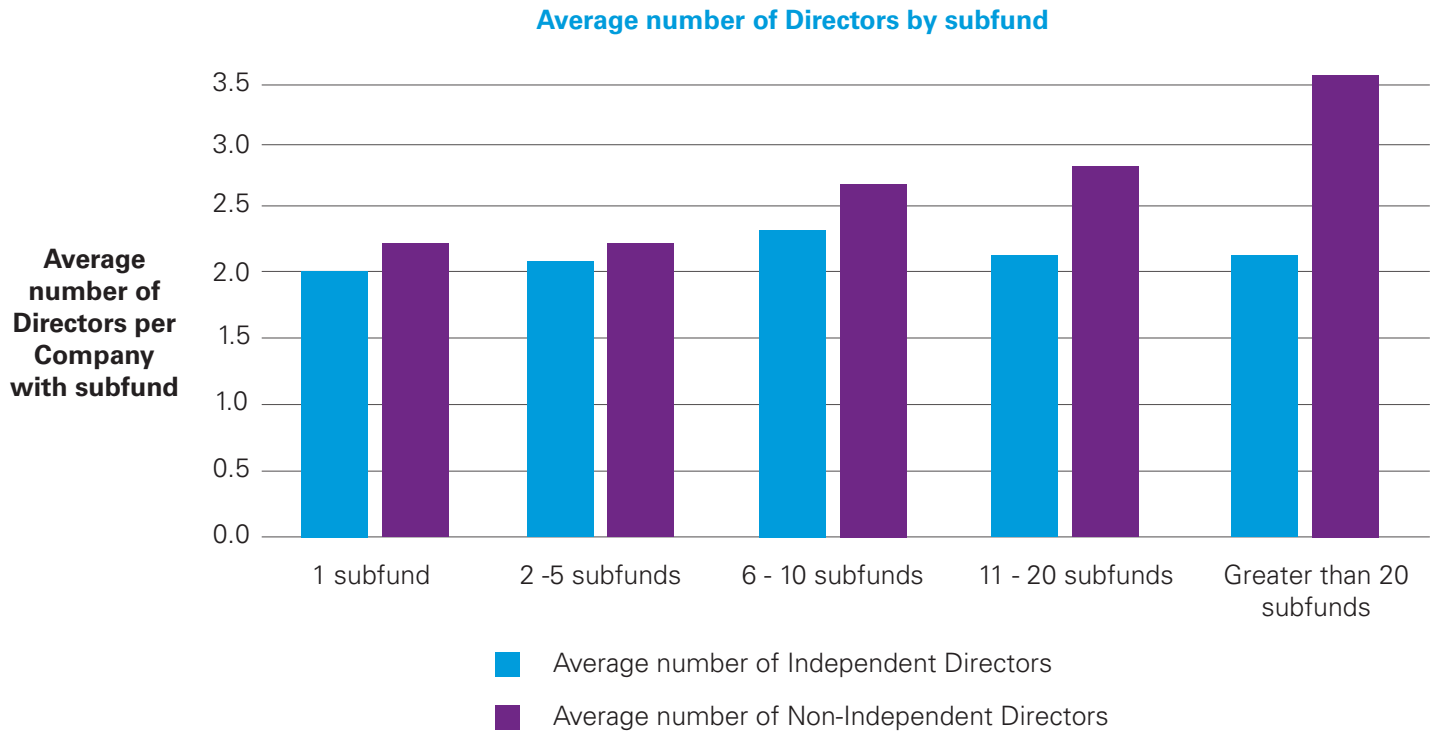
2. Directors Board Composition & Remuneration

Board composition - Directors

KPMG analysed the financial statements of over 200 UCITS companies. We found that the number of directors varied from 3 to 9 directors. The majority of companies had either 4 or 5 directors in each year.

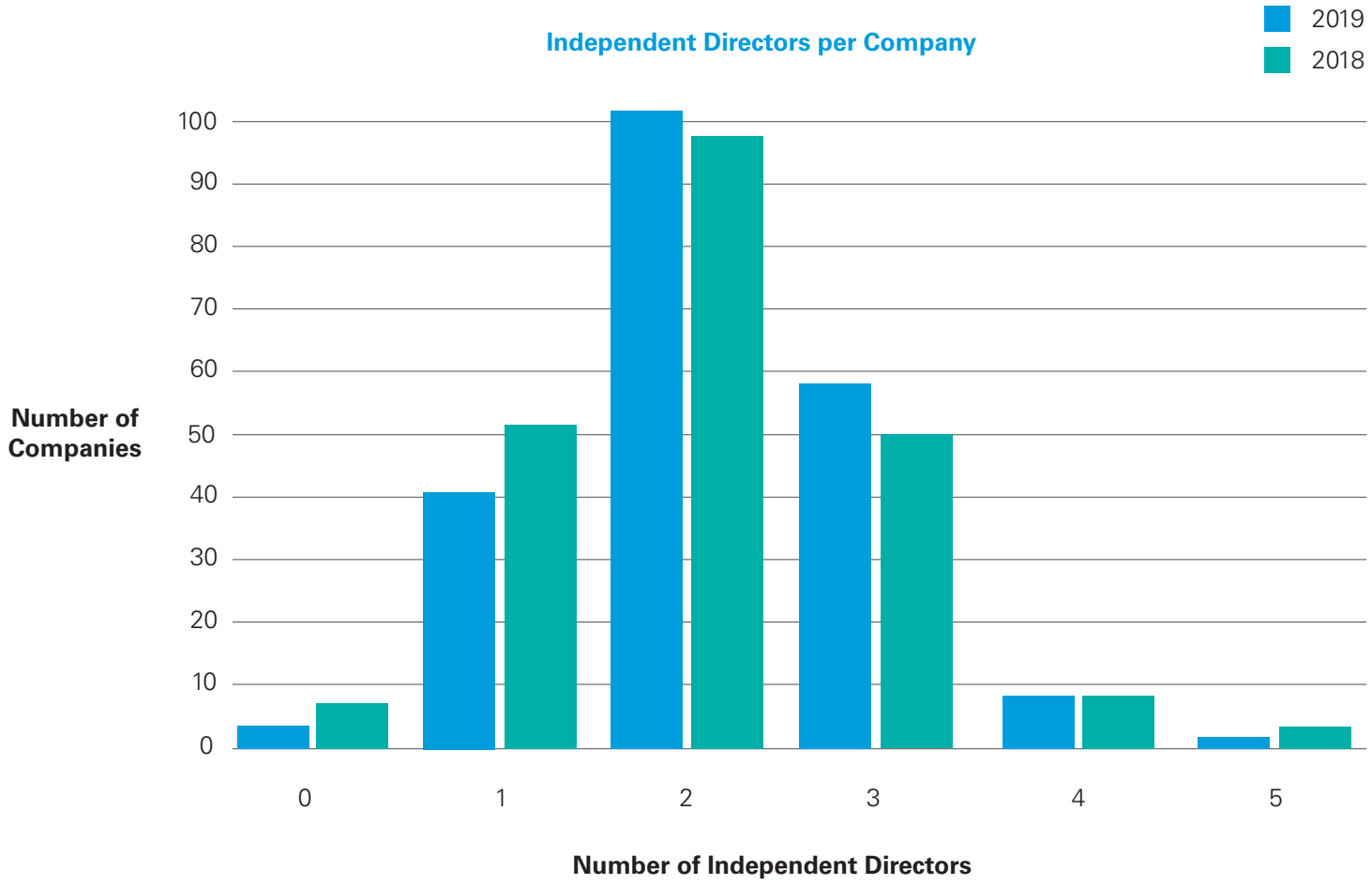


The number of directors did not vary significantly with the number of subfunds as illustrated below, however the average number of non-independent directors did increase as the number of subfunds increased.



Board composition - Independent Directors

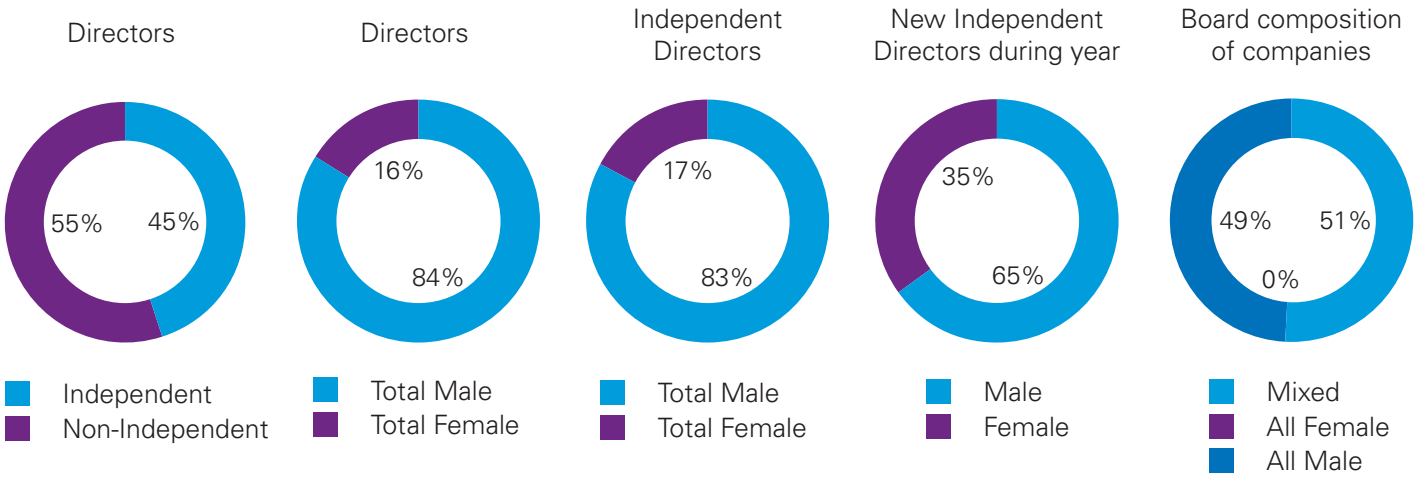
We only identified 4 companies in 2019 with no independent directors and 9 companies with 4 or more independent directors.



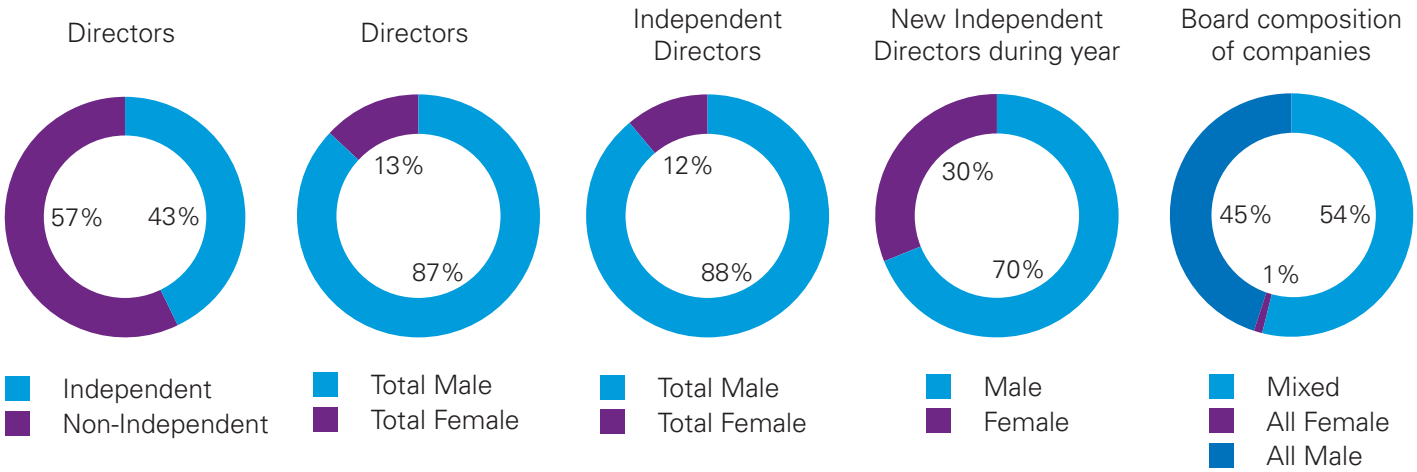
Board composition - Independent Directors

We found 45% of the Directors were Independent Directors in 2019 (43% in 2018) and 84% were male (87% in 2018). For new Independent Directors appointed during the year, 35% were female and 65% were male directors. 49% of companies had all male Directors boards and only 1 board had all female directors in 2019.

2019



2018



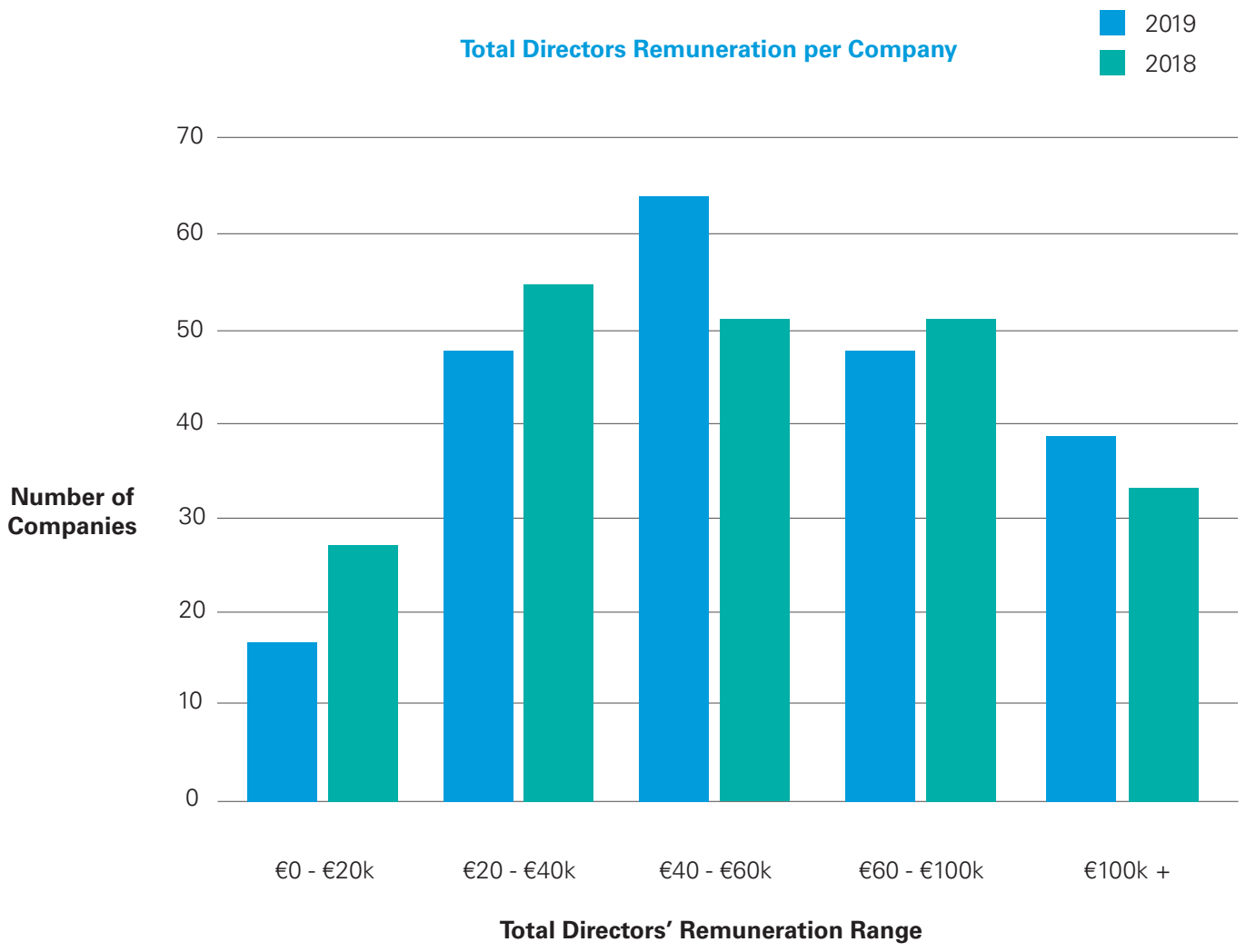
Balance for Better Business

In July 2018, the Irish Government lead an initiative, Balance for Better Business, to achieve a better gender balance at the senior levels of Irish companies. The initial focus is the boardroom of publicy quoted companies and in the future, the initiative will extend analysis and recommended targets to other companies. Balance for Better Business had also set a target that by the end of 2019, no listed company should have an all-male board and that all listed companies should have at least 25% females in their boards. In the latest report issued by Balance for Better Business at the end of September, the current % of females on boards of listed companies was 21% which was below the target of 25% and there was no progress made on the all male boards at this date.

Total Directors' Remuneration for a Company

The average remuneration of directors increased in 2019 compared to 2018. The mean range continues to be €40,000 - €60,000 for the company as a whole.

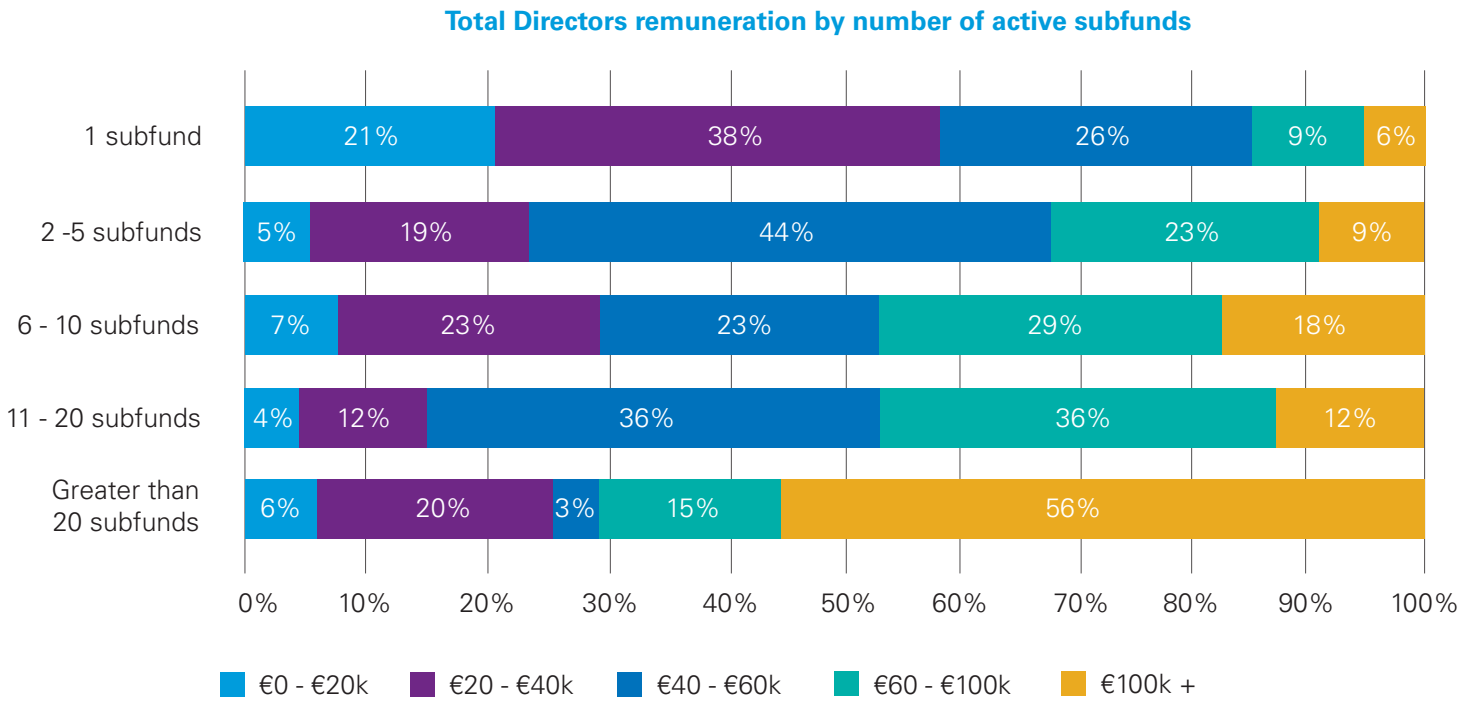
- 8% of companies had total directors' remuneration less than €20,000 (12% in 2018)
- 22% of companies had total directors' remuneration in the range €20,000 - €40,000 (25% in 2018)
- 30% of companies had total directors' remuneration in the range €40,000 - €60,000 (24% in 2018)
- 22% of companies had total directors' remuneration in the range €60,000 - €100,000 (24% in 2018)
- 18% companies had total directors' remuneration greater than €100k (15% in 2018)
- 11 companies had total directors' remuneration greater than €200k (7 in 2018)

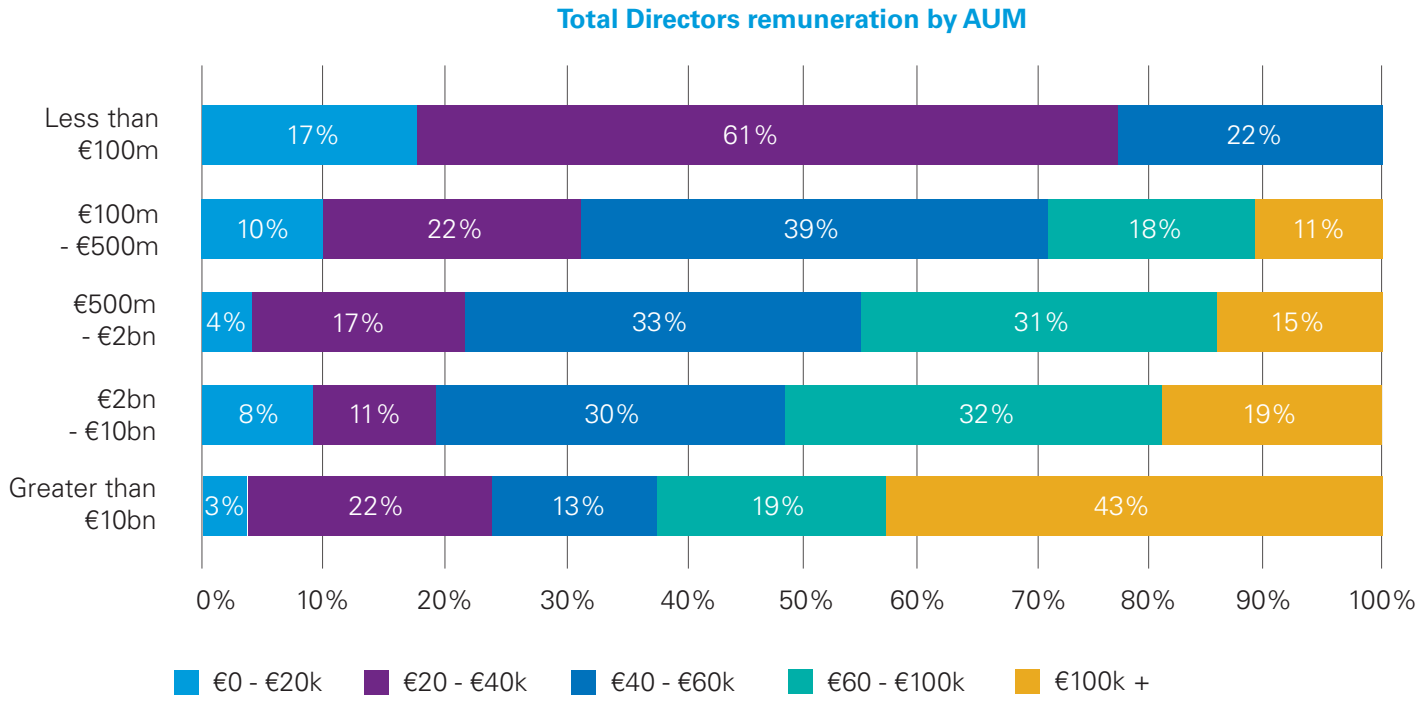


In the majority of companies, the executive directors continue to waive their remuneration.

Total Directors' Remuneration for a Company

Of the 216 companies we analysed how directors' remuneration varied compared to the number of subfunds and the Assets Under Management ("AUM") of the companies as illustrated below.





Remuneration by Assets Under Management ("AUM")

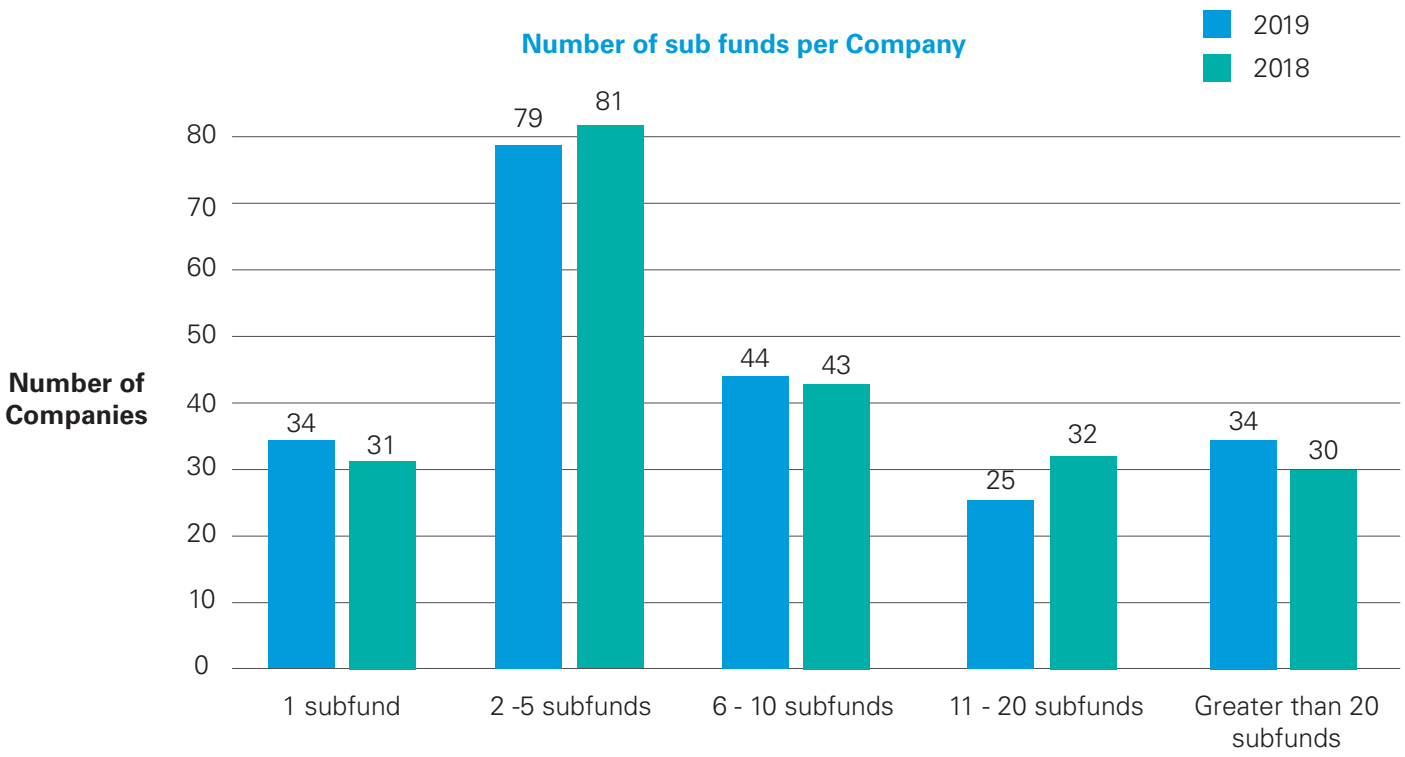
The following table illustrates the range of total directors remuneration and indicates the higher the assets under management the higher the directors remuneration.

Total Directors' Remuneration for Irish UCITS plc			
Assets under Management	**Lower Quartile (€'000s)**	**Median (€'000s)**	**Upper Quartile (€'000s)**
Less than €100m	24	31	38
€100m - €500m	38	48	69
€500m - €2bn	42	57	81
€2bn - €10bn	47	64	83
Greater than €10bn	47	83	163

Lower quartile – is the median of the lower half of the data set
Median – is the number that is the "middle" value of the data set
Upper Quartile – is the median of the upper half of the data set

Remuneration by Number of Active Sub funds

The 216 companies we analysed in 2019 (217 in 2018) included 2,300 subfunds in 2019, 2,286 subfunds in 2018 as follows:



As expected the average directors' remuneration for each subfund basis decreases the more subfunds are in a platform.

Average of Total Directors Remuneration	2019 Total €	2018 Total €	Average Remuneration by Subfund - 2019 €	Average Remuneration by Subfund - 2018 €
1 subfund	42,795	41,893	42,795	41,893
2 - 5 subfunds	56,675	49,655	17,688	16,666
6 - 10 subfunds	75,246	66,533	10,368	9,734
11 - 20 subfunds	64,850	86,283	4,179	5,706
Greater than 20 subfunds	130,034	100,844	3,996	2,672
Grand Total	**70,767**	**64,369**	**16,340**	**15,345**

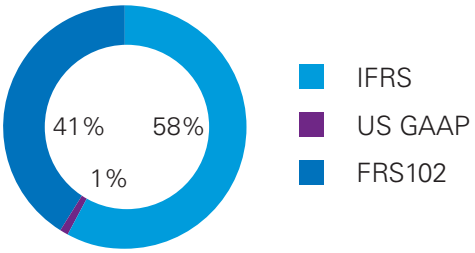
Appendices

1. Additional Data
2. Methodology and Assumptions

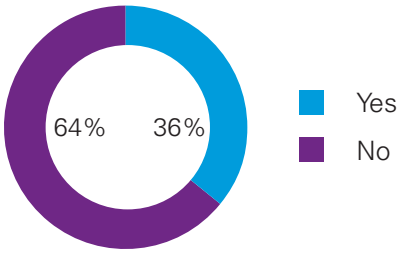
Appendix 1: Additional Data

Outlined below is additional data observed during our review of the financial statements obtained that audit committee may find interesting:

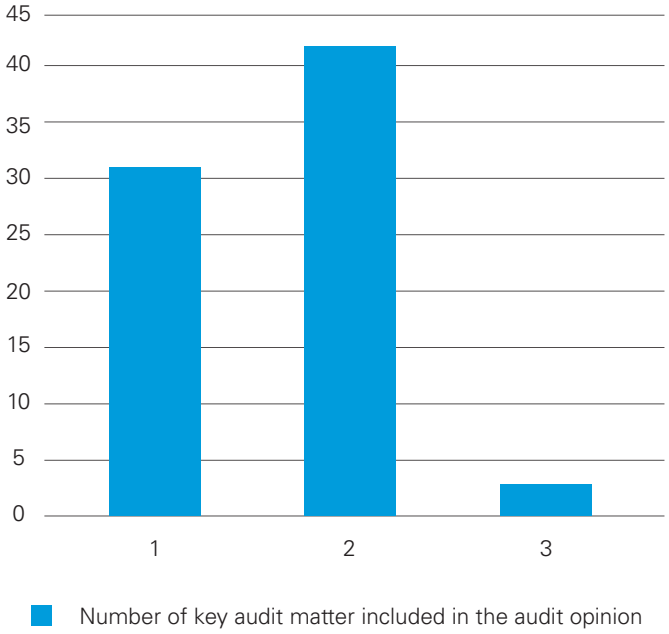
Accounting standards used



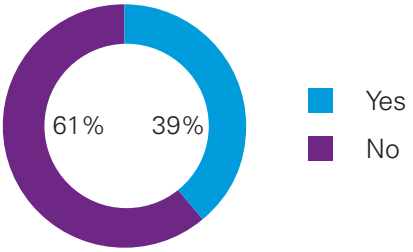
Key Audit Matters included in the audit opinion (indicating listed companies)



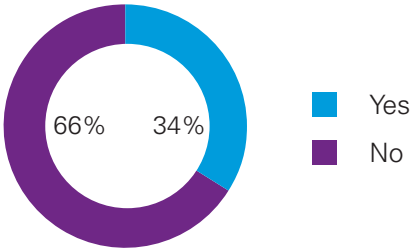
Number of Key Audit Matters for listed companies



Performance fee included in companies



Level 3 positions held by UCITS companies



Appendix 2: Methodology and Assumptions

This publication is designed to be a guide to you to assist in benchmarking remuneration of directors in an Irish UCITS company. We have analysed the data from publicly available financial statements into groupings by assets under management and by number of sub funds.

- This guide should only be used in conjunction with other relevant information to ensure the data is interpreted and is relevant to your entity.
- While data provides a useful guide, it is important to note its historical nature, together with the personal circumstances that are attached to each company.

Data Sources

- In 2019 we downloaded from the internet 216 publicly available financial statements for Irish UCITS companies.
- Graphs and tables have been created by KPMG, from data obtained from the publicly available financial statements.
- The 2019 report carried out reviews on 2018 financial statements of 216 Irish UCITS plcs, whilst the 2018 report performed reviews on 2017 financial statements of 217 Irish UCITS plcs.

Data Sample

- The amounts included figures used for the analysis are as at the relevant reporting date for each company and have been translated to Euro where necessary for the purpose of the analysis.

Median and Quartile Points

- For the purposes of the report, median information has been provided where there are four data points or more. Inter-quartile ranges have been provided where there are nine or more data points.

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