

# Remuneration Policy Statement - Cazenove Capital

## 1 January to 31 December 2011

This remuneration policy statement has been produced for the year 1 January to 31 December 2011 under the FSA's Remuneration Code (the 'Code'). It aims to set out the remuneration policies, practices and procedures of Cazenove Capital Management Limited (and associated group companies as defined below), and Group compliance with the Code for the current year. Policy statements should be reviewed on an annual basis by the Remuneration Committee, and future statements will be presented to the Remuneration Committee at its annual January meeting. This first policy statement is being presented to the full board for review and approval if deemed appropriate.

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### Section A

#### Code firms:

The firm considered a Tier Four firm under the Remuneration Code is Cazenove Capital Management Limited, with FSA registration number 178732. Cazenove Capital Management Limited is part of the Cazenove Capital Holdings Limited Group ("the Group"), and other regulated entities within the group (together or separately, unless otherwise specified, "Cazenove Capital") are Cazenove Investment Fund Management Limited, Thornhill Investment Management Limited, Thornhill Unit Trust Managers Limited and Cazenove Capital Management Jersey Limited (regulated by the Jersey Financial Services Commission). Cazenove Capital Management Limited is the principal employing company, but the companies listed above are all those for which the remuneration of employees is considered in the context of the Code.

#### Contacts:

For information about, or questions on, Group compliance with the Code, please contact:

Helena Harvey, Company Secretary	020 3479 0476
Jeremy Turnbull, Compliance Officer	020 3479 0466
Carolyn Sims, Chief Financial Officer	020 3479 0475
Andrew Ross, Chief Executive Officer	020 3479 0479

#### Performance year:

The performance year runs from 1 January to 31 December in each year. This policy statement is in respect of 2011.

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### Section B. Reward Schemes

#### B i – Bonus schemes

##### Profit share

All permanent employees are entitled to participate in the profit share scheme. There is no guaranteed level of participation, although it is anticipated that the amount payable will be equivalent to between 5% and 10% of basic salary paid in the year. This is paid to all staff (excluding certain employees paid under sales based remuneration schemes), in cash, in January of each year, subject to performance. Employees may be excluded, or have this element of their remuneration reduced, for underperformance.

The view of the Board and Committee is that a profit share scheme motivates all staff to promote the success of the Group, and thus aligns client, shareholder and staff interests.

##### Discretionary profit share scheme

A discretionary profit share is payable on an annual basis. The scheme is open to all employees, but is weighted more heavily toward the reward of demonstrable outperformance. The level of bonus paid, which is not subject to an upper limit or linked to a predetermined formula and is not pensionable, is determined by the Remuneration Committee taking into account the financial performance of the Group for the relevant period and the performance of the individual concerned.

The overall amount available is determined by the profitability of the Group and is divided between the areas of the Group. The profit share is calculated in direct relation to the profitability of the relevant business area. The entire profit share pool, which is not subject to an upper limit, is distributed to the employees of that business area on a discretionary basis. Where such a distribution involves a senior executive, the Committee has oversight of, and right of veto or adjustment over, the level of profit share, and an element of the award will be deferred and awarded as equity or equity equivalent (see next section – Conditional Share Plan).

## **B ii – Incentive schemes**

### **Conditional Share Plan (“CSP”)**

Certain employees of the Group (including executive Directors) are eligible to participate in the CSP scheme. Awards under this scheme are linked to the share price at the vesting date of the award, and can be settled in either shares or the cash equivalent, at the Group’s discretion. The scheme is not subject to any performance criteria, although since the ultimate value of the award is linked directly to the share price at the date of vesting, the Board and Committee consider that the interests of employees and shareholders are properly aligned. The awards have no cost to employees at grant, but do incur charges to income tax and National Insurance on vesting. The terms of the scheme have not been approved by shareholders, although remain subject to periodic review by the Remuneration Committee and Board, to ensure that the scheme continues appropriately to align employee and shareholder interests.

These awards are made on the same discretionary basis as the profit share and make up a meaningful proportion of employees’ variable remuneration. The shares vest over two and three years; as new awards are made, the two year portion of the award will overlap with the prior year three year award. The awards are conditional on being in employment at the vesting date. Therefore the awards act as a retention device as well as linking the participants to the future performance of the Company. The percentage of variable remuneration paid in equity has been 32% and 29% for the last two years and awards are made to key staff in the Group.

### **Company Share Option Plan (Approved and Unapproved) (“CSOP”)**

The CSOP was established as the primary incentivisation scheme following the Company’s demerger from Cazenove Group Limited on 1 January 2006 and is open to certain employees (including executive Directors). Participation is limited. As a result of the scheme being the primary incentivisation scheme following demerger, the majority of awards under the scheme were made in August and December of that year. A pool of options was held in reserve and grants have been made in exceptional circumstances since that date, for example for new recruits. Options are granted at 35 pence, which was the prevailing market price at the date of adoption of the scheme. Approved options vest on the third anniversary of the date of grant. Unapproved options vest on the third, fourth and fifth anniversaries of the date of demerger.

### **Restricted and Growth Share Plan (“RGSP”)**

The RGSP has been introduced as the primary incentivisation scheme following the expiry of the CSOP which was put in place on demerger and is open to certain employees (including executive Directors). Participation is very limited. The awards under the scheme were made in June 2011. Awards consist of a combination of Restricted Ordinary Shares, which vest between three and five years from the date of grant, and Growth Share Options, which, once exercised, result in Growth Shares being held. The Growth Shares are restricted, and vest between three and five years from the date of grant. Once the awards vest, the Growth Shares are convertible into Ordinary Shares in accordance with strict formulaic criteria. A pool of awards has been held in reserve to be made in exceptional circumstances, for example for new recruits. The awards made at outset form the substantial part of deferred remuneration for the individuals for a period of five years from grant, and new awards are unlikely to be made to participants as a result.

As an unlisted, privately held company, registered in Jersey, Cazenove Capital Holdings Limited (the ultimate parent company of the regulated group employer companies) is not required to seek shareholder approval of the scheme details. The Board, however, sought tacit approval from shareholders as new Articles of Association were required to adopt new share classes to facilitate the RGSP, which was given at the Annual General Meeting in April 2011. The Remuneration Committee, and the Board, consider that the Scheme aligns the interests of shareholders and employees, since the Restricted Ordinary Shares give employees a real (albeit deferred) stake in the business at the date of award, whilst the Growth Shares only reward growth in the share price from the date of award, and thus do not dilute shareholders without demonstrable benefit to them.

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## **Section C. Remuneration Code Staff**

### **C i - Criteria for determining**

Any employee who sits on the Board of a regulated group company (or the ultimate parent company), or who sits on one of the management groups has been designated a Code employee. This is due to the level of influence each employee/board member would have over the strategy, risk appetite and risk management of Cazenove Capital. In addition, the Director – Internal Audit, has been designated a Code employee due to the nature of the role, which involves the assessment of risk within the Group.

### **C ii - List of Code Staff**

David Austin – Head of Financial Planning

Mary-Anne Daly – Head of Wealth Management

Sandy Dudgeon – Head of Business Development

Marcus Gregson – non-executive Director

Jeremy Hervey – Head of Charities

Sir Roger Hurn – non-executive Director

Richard Jeffrey – executive Director

Sir Sydney Lipworth – non-executive Director  
David Mayhew – non-executive Director  
Robin Minter-Kemp – executive Director (Head of Investment Funds)  
David Mortimer – Director – Internal Audit  
Michael Power – non-executive Director  
Andrew Ross – executive Director  
Carolyn Sims – executive Director  
Jeremy Turnbull – executive Director (Head of Compliance and Risk)  
Rupert Tyer – non-executive Director

Total code staff 2010 performance year: 16

#### Measures taken to ensure Code employees understand implications of designation:

A detailed Remuneration Policy has been drafted in response to the Code, and Code employees have access to this at any time, via the Company Secretary, the Head of Compliance and Risk, or Human Resources. The designation of certain staff as Code employees has, in addition, been communicated via the performance management process, and the implications discussed by the relevant individual with their line manager.

#### Principle 1 – Risk management and risk tolerance

The principles adopted by the Remuneration Committee ensure that the interests of shareholders and employees, together with other stakeholders, are aligned, through the deferral of a meaningful proportion of remuneration. This ensures that Code employees are not motivated by short-term gain, and do not adopt a strategic or tactical approach to the business which achieves such gain at the expense of a less prudent risk appetite.

#### Principle 2 – Supporting business strategy, objectives, values and long-term interests

Remuneration policy has a significant focus on the award of an element of remuneration as equity or equity equivalent in the ultimate parent company. This ensures that the long-term interests of both employees and shareholder are aligned. The Board of the ultimate parent company sets the strategy, objectives and values of the business, and has a strong non-executive component, thus ensuring that these core components of the business are not set without regard to independent guidance.

#### Principle 3 – Avoiding conflicts of interest

The remuneration of Code employees is reviewed by the line manager for the relevant employee (usually the Chief Executive Officer, but with some exceptions), and recommendations are made to the Remuneration Committee in line with the assessment of the line manager. The final decision rests solely with the Remuneration Committee. No recommendation is made in respect of the Chief Executive Officer, and this decision rests solely with the Remuneration Committee. Due to the size and nature of the business, there are not any other conflicts of interest.

#### Principle 4 – Governance

The Group has had a Remuneration Committee since it was established as an independent business in 2006. The members of the Remuneration Committee (“the Committee”) are Sir Roger Hurn (Chairman), Sir Sydney Lipworth, David Mayhew and Michael Power. All members of the Committee are considered by the Board to be independent, although under the guidance of the Listing Rules of the London Stock Exchange, David Mayhew would not be considered independent. The Chief Executive Officer is consulted by the Committee regarding the remuneration of the other executive directors and the senior management personnel who are remunerated at or above the levels of Board members or who are additionally designated Code employees. There are separate terms of reference for the Remuneration Committee.

The Committee meets annually to consider the year end remuneration for executive directors and senior management personnel, and also to review any employees to whom the FSA Remuneration Code should apply. The Committee would convene on an ad hoc basis should any matters arise that required the consideration of the Committee outside the annual meeting, Examples of this would include a recommendation to change the remuneration structure of the Group or a change in regulation that affects the Group’s remuneration policy.

As detailed elsewhere in this policy statement, the overall strategy and direction of the business is set by the Board of the ultimate parent company, which is also responsible for remuneration policy. There are, therefore, checks and balances in place to ensure that any strategy is one which focuses on the long-term growth of the business, and not on short-term gains at the expense of sustainable growth. A significant proportion of remuneration is deferred, and an element of that deferred remuneration is made either in equity, or in equity linked awards, to ensure that the long-term interests of employees, shareholders and other relevant stakeholders are aligned.

The bonus pool is determined by the level of profits in any given year, and there is therefore a limited amount of upward discretion that the Remuneration Committee would be able to exercise, although the ability for the Committee to adjust awards downwards is not limited. The Committee has the ability to adjust individual payments, and has exercised this discretion on a number of occasions in the last three years.

## Principle 5 - Control Functions

Employees carrying out control functions are totally independent. The Head of Compliance and Operational Risk reports directly to the Chief Executive Officer, with a separate reporting line to the Chairman of the Audit and Risk Committee, should it prove necessary. In addition, the Head of Compliance and Operational Risk is a director of the principal regulated companies within the Group, a member of the Group Risk Governance Committee, and reports directly to the Audit and Risk Committee at each of its meetings. Other employees carrying out control functions report directly to the Head of Compliance and Operational Risk, rather than to specific business areas.

Non-control function employees have a level of independence from their business units insofar as each the remuneration pool for each business area is based on its profitability for the year in question, and is not alterable by the employee in question. That employee assigns the overall remuneration pool available for distribution to sub-units within the business unit, for line managers to set individual remuneration levels. These are reviewed and agreed at the business unit level with the various team leaders each having an input. The remuneration of the relevant employee carrying out the control function would be set by the Remuneration Committee and therefore a decision which impacted the business unit overseen by such an employee would not be reflected in their personal remuneration.

The risk and compliance function has no input into the setting of individual remuneration policies and awards other than those directly related to that function.

## Principle 6 – Remuneration and capital

Total variable remuneration is budgeted throughout the year, and modelled alongside regulatory capital requirements. Variable remuneration is taken solely from distributable profits.

## Principle 7 – Exceptional government intervention

Not applicable

## Principle 8 – Profit-based measurement and risk adjustment

**8.1** The Company's Profit Share, Discretionary Profit Share, Conditional Share Plan and Restricted and Growth Share Plans (as described in Section B1) are all funded from a single profit share pool.

Throughout the year, a provision for profit share is made based on 50% of operating profit (that is, operating profits generated from the business before deduction of significant project costs or tax). At the end of the year this may be increased or reduced at the discretion of the Remuneration Committee.

**8.2** At the end of the year, following detailed analysis by the Chief Executive Officer and the Chief Financial Officer, the profit share pool is apportioned between the business and operational areas. The pools are principally allocated to business areas based on operating profits although the awards may be varied up or down to reward individual or collective exceptional performance. An amount is allocated for support staff relative to the overall operating performance of the business. The Chief Executive Officer and the Chief Financial Officer will recommend overall pooled amounts to be awarded immediately in cash (Profit Share and Discretionary Profit Share) and deferred amounts to be awarded via either the CSP or the RGSP.

Business line managers make recommendations on individual awards. These are reviewed by Heads of Department as well as by the Chief Executive Officer, the Chief Financial Officer and the Head of Human Resources.

The Chief Financial Officer and the Head of Human Resources review awards relative to individuals' appraisal ratings to ensure that other indicators of performance have been taken into consideration.

**8.3** The key performance measure used to determine the total payout is a percentage of operating profit (i.e. earnings before interest and tax). The range of awards in recent years has varied between 42% and 51%, which is then split between immediate cash and deferred reward. The business aims to defer approximately 30% of the total payout.

**8.4** Financial performance measures are set by the Chief Executive Officer and reviewed annually by the Remuneration Committee.

**8.5** Performance measures do not take account of future earnings streams. However, employees who receive deferred equity awards are exposed to the risks and rewards of growth or otherwise in future earnings and underlying share values. No future earnings streams are recognised up-front.

**8.6** The profit share may be varied at the recommendation of the Chief Executive Officer, ratified by the Remuneration Committee, where the firm's performance is weak or loss-making. In the early years of the business, the profit share was significantly higher than 50% of operating profit (for example 88% in 2005) while the firm was establishing its independence and the investment funds business.

## Principle 9 – Pension policy

There is no policy for discretionary pension benefits.

## Principle 10 – Personal investment strategies

There are personal dealing rules to which all employees must adhere. As equity remuneration awards are made over shares in the ultimate parent company, which is an unlisted company, with limited liquidity opportunities, it is not possible for employees to use personal hedge strategies to undermine risk alignment effects embedded in their remuneration arrangements.

### Principle 11 – Avoidance of the remuneration code

All variable remuneration is paid direct to the relevant employee. The only exception to this is deferred equity awards, which are paid through the Group's Employee Benefit Trust, an entity controlled by the Group for the purposes of making deferred equity awards. The Employee Benefit Trust holds equity on behalf of the employees to whom it has been awarded until such date as the award vests.

### Principle 12 – Performance assessment for individuals

The Chief Executive Officer sets performance targets as appropriate, but individuals are assessed on performance objectives. It is not always appropriate to quantify these in terms of financial performance, which may result in a shorter term, less pragmatic view being taken by the individual employee.

No new Code employees have been hired during the year under review.

Group policy on the buy-out of deferred bonuses for new joiners is generally that these should not exceed the amount of the deferred award being bought out, and should include the same, or similar (if longer) periods of deferral.

Due to the nature of the business, and the fact that it has operated as a standalone entity for a relatively short period of time, a number of awards have been to staff, including Code staff in the last twelve months, which have had an element of retention to them. In essence, the awards have been made to reflect the greater proportion of deferred remuneration for five years from the date of this report, and these awards are intended both to incentivise staff and to retain them over that period.

A total of 31,968,000 Restricted Ordinary and 42,624,000 Growth Shares were awarded to a total of 34 staff.

There have been no exceptional or non-standard termination payments in the year.

### Principle 13 – Disclosure

Under the proportionality guidelines issued by the FSA, Cazenove Capital is a Tier Four firm. Total aggregate remuneration for Cazenove Capital for the year ended 31 December 2010 (the most recent year for which full figures are available) was £38.7m, of which £6.2 million was paid or allocated to Code staff. Of the £6.2 million, £1.6 million was fixed, and £4.6 million was variable. The variable element included deferred remuneration in the form of equity awards as described earlier in this statement, and therefore was composed of £3.2 million cash, and £1.5 million equity linked instruments.

Deferred equity remuneration for Code employees totalled 15.3 million shares at 31 December 2010, of which 7.0 million shares were vested, and 8.3 million unvested.

No deferred remuneration was awarded, paid out and reduced through performance adjustments for the year under review, and no new sign-on or severance payments were made to Code employees

The split of the total aggregate remuneration of Cazenove Capital for 2010 across business units was as follows:

	31 December 2010
Private Wealth Management	£21.2 million
Investment Funds	£17.5 million
<b>Total aggregate remuneration</b>	<b>£38.7 million</b>