

**Compensation Policy**

Policy	Compensation	Version: 1.1
<b>Reference:</b>		<b>Effective date:</b>
<b>TNIFMC:</b>		<b>Approved by:</b>

**Revision History**

Base Version	Release date	Rationale for change	Summary of changes	Updated by	Approved by
1.0	January 2017	New policy	-	Kelsa	CEO/Board
1.1	February 2018	Updates in Variable pay amounts and Carry	1. percentage of variable pay to fixed pay 2. updated carry policy	Kelsa	Board
1.2					

Sunset Clause: The compensation policy shall be reviewed at the end of every three financial year period.

**Table of Contents**

Compensation Policy .....	1
Objective .....	3
Definitions.....	3
PART I – EMPLOYEES FIXED AND VARIABLE PAY .....	3
1. Fixed Pay .....	3
2. Variable Pay.....	5
2.1 Variable Performance Pay .....	5
2.2 Bonus .....	5
PART 2 - CARRIED INTEREST .....	7
PART 3 -NON EXECUTIVE DIRECTORS COMPENSATION .....	10
PART 4 - COMPENSATION TO INVESTMENT COMMITTEE MEMBERS .....	10
Approving Authority .....	10

## **Objective**

It was decided to introduce a compensation policy for TNIFMC based on a professional market survey. The objectives of the compensation policy are as follows:

- Establish guiding principles for planning, and hiring with reference to compensation budget
- Understand the competitiveness of the current compensation being offered by the organization as compared to the market
- Enable right compensation to attract, engage, and retain talent.
- To facilitate decision making pertaining to promotions and merit-based pay increases.

## **Definitions**

“**Company**” refers to the entity of Tamilnadu Infrastructure Fund Management Corporation Limited (TNIFMC)

“**Alternate Investment Fund (AIF)**” means any fund established or incorporated in India which is a privately pooled investment vehicle which collects funds from sophisticated investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors.

“**Sponsor of Fund**” is any person(s) who set up the AIF and includes promoter in case of a company

“**Asset Management Company (AMC)**” is a company formed and registered under the Companies Act 1956, whose main objective is to invest its clients’ pooled funds into securities that match its desired financial, social and economic objectives

## **PART I – EMPLOYEES FIXED AND VARIABLE PAY**

**Eligibility:** All employees of TNIFMC are covered under this policy according to the guidelines provided below. Any exceptions will be specifically mentioned in the relevant section of the document.

**Authority:** Decisions pertaining to fixed pay, variable pay and bonus shall be decided as follows:

<b>Applicable Levels/Roles</b>	<b>Deciding Authority on quantum and timeframes</b>	<b>Escalations for compensation related grievances</b>
<b>Senior Management/ Executive Committee (EC)</b>	Nomination and Remuneration Committee (NRC) with Board approval	Board of Directors
<b>Other Employees</b>	Executive Committee	NRC

**Senior Management/Executive Committee (EC):** The Chief Executive Officer, Chief Operating Officer and the Chief Risk Officer

**Other Employees:** Managing Partner (MP) of all Funds, Principals of all Funds, All Analysts

### **1. Fixed Pay**

Fixed Pay is a guaranteed part of the compensation payable on monthly basis. The market ranges for various positions prevalent in the Industry and the compensation paid per annum is given the benchmarking report from Aon Hewitt (AOH) consultants. The compensation given for different performance levels would indicate the comparatively higher level of wages prevalent in the market and needed to attract personnel for the job of Fund managers and associates at various percentile points.

Fixed pay is initially pitched at a range of upto +10% or -10% of P75 of the corresponding mapped position in the AOH report for all the first occupants of the post, with the replacements placed around the median.

Officers on deputation from Government, will retain their current pay as Fixed Pay and any differential amount over and above the same shall be treated as a Personal Allowance and for company valuation purposes would be treated as Cost to Company.

As regards the fixed pay applicable to roles, where there is no equivalent mapping to other companies, as TNIFMC will have more than one role assigned to an individual, Fixed pay shall be accordingly adjusted to accommodate the increased responsibilities and expectations of these combined roles.

### **Senior Management / Executive Committee**

The Chief Executive Officer, Chief Operating Officer and the Chief Risk Officer would form part of the Senior Management/Executive Committee. The fixed pay of the senior managerial personnel will be fixed at a range of upto +10% or -10% of P75 of the corresponding mapped position of the market ranges in the AOH report. This may be made applicable to CEO and the Chief Risk Officer.

The COO's compensation may be determined in relation to that of the CEO and therefore the fixed pay for this role is recommended to be pegged at 80% of the CEO's compensation, for the same seniority levels.

### **Other Employees**

The fixed pay of other employees will be fixed at a range of upto +10% or -10% of P75 of the corresponding mapped position of the market range identified for the similar role as given under the report of the Consultants. The decision on modalities and fitment for other employees would be taken by the EC, keeping the NRC informed.

Fixed pay in TNIFMC is distributed as below:

- Basic Pay will not be less than 30% of the Gross Compensation for any individual.
- HRA will not be more than 50% of Basic
- Under the new Union Budget 2018, upto Rs.40,000/- per annum is the amount permitted for standard deduction for conveyance and medical reimbursement
- The statutory requirements, such as PF and ESI, will be adhered to as per the relevant Acts
- All other allowances are subject to tax and may be clubbed under Special Allowance
- Individuals are expected to invest in tax saving schemes and investments independently

### **Increments**

The annual increments for all personnel should be correlated to the Performance Appraisal and subject to the approval of the NRC or the Senior Management as the case may be. The percentage of increment will be on the Cost to Company and proportionate allocation made to Fixed and Variable components of pay. Increments will be determined based on individual performance and market survey of increments data, as recommended by the AOH report, with a sanity check based on increase in Consumer Price Index. The total increase in Fixed Pay may differ from year to year.

### **Promotions:**

Any outstanding work where an employee is rewarded with a promotion may result in increased responsibilities and/or increase in pay, based on the assessment of his performance, the job expectations and the environmental factor as per his Performance Appraisal.

It will be done as per the delegated authority on the basis of performance measured by the Appraisals. It will be accompanied by fixation of new pay corresponding to the new position.

### Superannuation:

The age of superannuation shall be on attainment of 65 years. However, this is extendable on case-to-case basis with the approval of the Board, especially in cases where the continuance of the employee would make a significant difference to the monitoring & exit of a fund where the incumbent has played a key role in deployment.

### 2. Variable Pay

Variable pay is treated differently for Executive Committee Members and for other cadres.

- For Executive Committee members, it shall be entirely dependent on the profit pool as the rewards for this level of management is entirely outcome-based. This will be termed as BONUS, for the purpose of this document
- For Other Employees, variable pay is not based on profits, it is based on individual performance which is evaluated on agreed KPIs, as recommended by the AOH report. This will be termed as VARIABLE PERFORMANCE PAY, for the purpose of this document

**2.1 Variable Performance Pay** shall be applicable to Other Employees only. This shall be fixed as follows:

Band	Variable pay as a percentage of Fixed pay
M1 (Managing Partner)	35%
M2 (Principal)	30%
M3 (Associate/Analyst/Support Staff)	25%

Annual Variable Performance Pay is based on contribution of the individual as determined by their performance against the Key Result Areas (KRA) and their Key Performance Indicators (KPI). Variable performance pay will be factored in as part of the employee's Cost to Company and paid out on an annual basis depending on their KPIs being met. The percentage of variable pay to be actually disbursed to each individual will be determined by the Performance policy and the **demonstrated** performance of the individual.

### **2.2 Bonus**

At the EC Level and above, in a unique organization such as TNIFMC, wherein the business lines go beyond the scope of fund management, the profits of the company reflect the performance of the Top Management, IC and the Board. The ability to draw together the resources of the team, manage the complexity of dealing with various stakeholders and yet effectively deliver profits is a challenge that should squarely rest at this level and cannot be expected of the rest of the team.

Therefore in determining the bonus structure, linkage to corporate performance is restricted to the Executive Committee, IC and Board Level. This shall be paid out annually from the annual profits of the company and determined along with the approval of the audited accounts by the Board of directors (BOD).

The limits for the EC would be fixed as they are carrying out similar functions, considering the analogy of the limits of Company's Act on profit sharing for Executive Directors, as the Executive Director Position is not made applicable for the EC only for structural reasons related to the fund Industry.

**Executive Committee:** The Bonus for the members of the EC would be approved by the NRC. The total bonus for the EC (Top Management), who are directly responsible for the profits and are full time

employees, would be 11% of the profits (PBT). The distribution to members of the EC will be based on their performance appraisal as determined by NRC and the BOD.

**Criteria for Earning Bonus:** Other than profitability, the other parameters to be taken into account for determining eligibility for Bonus are:

- Quality of Assets
- Monitoring
- Exits
- Attrition of team

## PART 2 - CARRIED INTEREST

### Overview

TNIFMC sees carry as an enabler of TNIFMC's vision i.e providing innovative solutions with disciplined execution and strong sense of ownership. This document provides a framework of the various considerations that come into play while sharing the carried interest including defining the recipients, carry eligibility and its distribution, carried interest rights and carry split

Carried Interest (Carry) is the specified share of the profits in the PPM, earned by a Fund in excess of the hurdle rate. For example in the case of TNIF, a share Class A investment has a 10% hurdle while a share Class A1 investment has an 8% hurdle. Once the principal and hurdle returns have been realised, 10% share of the excess over hurdle is the total carry.

Carry is distributed to the following stakeholders of the company - fund sponsors, shareholders, investment committee members, executive committee members and members of the deal team.

The carry is paid out to ensure that the people responsible for making investment decisions are rewarded for the success of such decisions and therefore their interests are **demonstrably** aligned with that of the LPs (investors). LPs would study the carry policy before making significant investments.

The Carry and distribution for each Fund may be different. In this document we are looking at the Carry Policy of TNIF specifically.

### **Carry Policy for TNIF**

The life of the Fund shall be deemed to begin from the date of deployment of first investment. The amounts of carry disbursed to employees/IC will be pro-rated for the period of employment depending on the start date of the life of the Fund.

### **Recipients of Carry**

The AMC divides the total carry allocated to it, in the following manner

- Fund Sponsor Allocation- 20%
- AMC Allocation- 10%
- Investment Committee Allocation- 10%
- Executive Committee Allocation-30%
- Reserve Pool Allocation-10%
- Deal Team Allocation-20%

**Fund Sponsor Allocation:** TNIDB, the sponsor of TNIF, is a very important source of unique investment opportunities for the Fund and is expected to provide a preferred partner status. The carried interest share of 20% is to reward these efforts.

**AMC Allocation:** The AMC share of the carry is 10% and typically goes to the shareholders of TNIFMC.

**Investment Committee Allocation:** The Investment Committee share of the carry is 10%. The Investment Committee evaluates proposals and guides and strengthens the process of entering into investments successfully.

**Executive Committee Allocation:** The Executive Committee has the ultimate responsibility of performance of the fund and is eligible for 30% of the carry. As the performance of the Executive committee is crucial for the success of the fund, it is important that the rewards of this team is outcome based and tied to the performance of the fund. The carried interest serves as a major catalyst for the executive committee to ensure maximum profits and ensuring superior performance of the fund.

**Deal Team Allocation:** The Deal Team consists of the Managing Partner, Principal, Associates and Analysts would be responsible for the identifying and appraising projects and making investments, During the lifetime of the Fund they will continue to monitor investments besides ensuring exits as per strategy.

The Deal Team share will be distributed in pre-determined proportion to the different Levels in the Team as described in the Carry Split below

**Reserve Pool Allocation:** The reserve pool share of the carry is 10%. Any unvested amounts for any reason from original allottees will be accumulated into the Reserve Pool in addition to the 10% share. The reserve pool is a cache from which discretionary carry for new joiners and carry in case of death or superannuation of an employee is paid out. At the end of the fund lifecycle the remaining carry in the reserve pool will be paid out to all deal team members and support staff in the same ratio as Carry Split below, with .05% of the Reserve Pool being used for Support staff.

**Carry Eligibility:**

All members of the Deal Team for the Fund shall be eligible for Carry, provided they have been in employment with TNIFMC for a minimum of three years. If an employee leaves within three years from date of employment s/he is not eligible for carry.

Carry Eligibility ensures that employees have an incentive to remain active throughout the life of the fund. In another sense, it rewards the relevant period spent by the role holder in the fund. For employees, TNIFMC matches the carry eligibility with the life of the Fund on a straight line method. For example for a 10 year fund, the carry eligibility is as per the table below:

Carry eligibility- IC/Employees	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10 / Liquidation
	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%

All eligible employees will have a share of the carried interest derived from the consolidated profits generated by all portfolios in the particular fund.

A situation may arise where a new joiner has to be given an additional amount of carry which is not adequately covered by the Reserve Pool. If so the EC in consultation with the affected stakeholders may do so.

**Carried Interest Rights:**

Carry eligibility is dependent in tenure and the circumstances of the departure of an individual.

**Superannuation:** If an employee superannuates, it is assumed that the person has stayed throughout the life of the fund and will get the entire carry he/she would be eligible for at the end of the fund life cycle. Carry till the date of superannuation would be disbursed from the deal team pool while carry from the date of superannuation for such employees would be disbursed from the reserve pool.

**Casualty/ Permanent Disability:** In case of death or permanent total disablement of a deal team member, it is assumed that the person has stayed throughout the life of the fund. A person is permanently and totally disabled if he or she cannot engage in any substantial gainful activity because of a physical or mental condition that occurs during employment at TNIFMC. The carry amount would be disbursed to the nominee of the employee. Carry for the period for which the employee has worked in the fund would be disbursed from the deal team pool while remaining carry would be disbursed from the reserve pool.

**Malafide:** If an employee is removed for a malafide cause (see disciplinary policy), not involving poor performance, all entitlement to carry allocations and distributions will be forfeited. And moved to Reserve Pool.

**Poor Performance:** When an employee is removed for poor performance after three years of employment and is required to forfeit share of carry, s/he may escalate the grievance to the NRC for resolution. All forfeited amounts will be moved to Reserve Pool.



**Resignation:** An employee is entitled to eligible carry till the last date of employment with TNIFMC.. However, if it is found that he/she has joined a competitor in violation of any non-compete clause ,the same shall be treated as malafide and any entitlement to carry allocations and distributions is subject to forfeiture. In the event of death of the individual post resignation, the legal heirs would be entitled to the eligible amount.

**Recall to Parent Organization:** In the event an employee on deputation is recalled to the Parent organization during the life of a Fund, s/he will have the same rights as of resignation but the minimum tenure requirement of three years for eligibility will be waived.

**Carry Split:**

As previously mentioned, an employee's share of carry depends on the following parameters

1. Level
2. Tenure in the fund
3. Deal team size

The total carry share of an employee is obtained by multiplying the per person carry with the carry eligibility. The per person carry share would be as follows:

<b>Designation</b>	Managing Partner	Principal	Associate	Analyst
<b>Number of members</b>	1	3	4	5
<b>Carry Split</b>	30%	30%	25%	15%
<b>Per-person carry</b>	30%	10% (30% divided among 3 members)	6.3% (25% divided among 4 members)	3% (15% divided among 5 members)

If a member of the deal team leaves at any point during the life of the Fund, the carry eligibility would apply to the per-person carry and the total carry share would be disbursed to the employee at the end of the fund. If a new employee joins at some point during the life of the fund, the per-person carry would be as per the terms and conditions of the appointment. The carry eligibility would be then calculated from the year the employee has joined the deal team.

### **PART 3 -NON EXECUTIVE DIRECTORS COMPENSATION**

The sitting fee and Commission payable to the Non-Executive Directors are

- Board Sitting Fees – Rs.90,000 per meeting
- Board Committee (For statutory Committees) – Rs.45,000 per meeting
  - For other Committees, it will be as decided by the BOD's during constitution of the Committee

#### **Sharing of Variable Pay to Independent Members**

**Annual Variable Pay for Independent Members of the Board:** The bonus for the Board would be approved by the Shareholders, The Bonus to eligible Directors on the Board is restricted to 3% (for a company without a managing director) and 1% otherwise. Since TNIFMC is headed by a non-board Chief Executive, the bonus that may be paid by the company is upto 3% on Profit After Tax (PAT) and this shall be shared equally only to the Non-Government Directors

### **PART 4 - COMPENSATION TO INVESTMENT COMMITTEE MEMBERS**

#### **Introduction**

A 3rd party Investment Committee (IC), independent of the Board, is unique to a Fund Management Company like TNIFMC. This was a structure conceived to address the issue of a potential originator-investor conflict; industry benchmarks are not available. The Investment Committee is expected to evaluate proposals, guide and strengthen the process of entering into investments successfully.

Since their deliberations are expected to last for 8-16 hours and they have the final decision making over all investments, profit sharing bonus can be provided to them based on the successful performance of the Company.

Since the seniority and profile of an IC member is no less than that of the Board, but also acknowledging that the Board is the apex body, the Investment Committee sitting fees shall be pegged at 90% of the Board Sitting fees. Evaluation of each proposal would be treated as one meeting, as the committee would have to spend considerable time in study and deliberation.

- Investment Committee – Rs. Rs.80,000 per meeting
- No. of meetings – depends on number of proposals

#### **Annual Bonus pay for Investment Committee Members:**

The Bonus for the Investment Committee and the members of the EC would be approved by the NRC. The Bonus to each member of the Investment Committee members would be 1% of the PAT reflecting the greater amount of time spent on the work of the company and their considerable responsibility in taking the final call on fund deployment, which generates the profit.

#### **Approving Authority**

- Any exceptions or deviations from this policy must be approved by the CEO before such an exception or deviation is made. Any question of interpretation or applicability of any aspect of this policy will be settled by the CEO.
- Any revisions of this policy shall be effective post approval based on recommendation by the Board