3i Group plc Annual report and accounts 2014

Directors remuneration policy: Additional information on carried interest for Executive Directors

Co-investment and carried interest plans
(page 91 of 2014 Annual Report and Accounts)

Further information

Within the notes to the Policy table of the 2014 Directors Remuneration Report, it is stated that Executive Directors, other than the Chief Executive and Group Finance Director, are permitted to participate in carried interest plans and similar arrangements ("carried interests"). At present the Group has only two Executive Directors, the Chief Executive and the Group Finance Director, neither of whom, under the Group's existing Carry Plan, are permitted to participate in carried interests. This note provides further context on how the Remuneration Committee would address the issue of participation in carried interests in the event that the Company were to appoint an additional Executive Director, other than a new Chief Executive or Group Finance Director e.g. a senior investor.

- As a general rule, the grant of carried interests as part of the compensation package of an Executive Director would only be considered if that director were involved in the investment activity out of which those interests arose. In such circumstances, if carried interests were included as part of his/her compensation package, then other elements of the package (salary, annual bonus, LTIP) would be calibrated to take them into account and ensure that the overall reward structure remained appropriate.

- The vesting time frames of any carried interests granted would be on a no more favourable basis than the existing LTIP awards. Therefore, no vesting would take place before the third anniversary of award. The vesting after the third anniversary would be on the same basis as other participants in the relevant carry scheme, which would tend to be slower than the equivalent vesting arrangements under the LTIP (3i's current Private Equity carried interest plan for the 2013-16 period vests over a period of seven years, for example).

- Shareholders approved the 3i Group Carry Plan on 7 July 2004, which allowed Executive Directors (excluding the Chief Executive and Group Finance Director) to participate in any carried interest plan established in the 10 years ending on 8 July 2014. Shareholder approval would be required if an Executive Director was to participate in a carried interest plan established after 8 July 2014. The current Private Equity carried interest plan was established on 1 April 2013 and is expected to expire in 2016.

- At the time that each carried interest scheme is established, carry is pre-allocated for the benefit of investment staff and cannot be returned to the Company. Any carried interests awarded to a new Executive Director would come from this segregated pool and would therefore not represent any additional expense to the Company, simply a reduction in the carry available to be allocated to other investment staff.

- In Private Equity in general, carried interest pools are capped at a percentage (typically, as is the case with 3i, 20% or less) of net cash profits made on realisations from the underlying investment pool. The proceeds from carried interest are only paid out after the performance of the fund or pool of assets has exceeded a minimum level of return; for 3i's Private Equity carried interest arrangements, this is a compound return of 8% per annum.

- In the event that a new Executive Director were appointed to whom we expected to allocate carried interests, we would consult with major shareholders on the overall shape and quantum of his/her compensation package.

The document here provides a broad explanation of how carried interest plans operate.