

Remuneration Policy;

LGIM Liquidity Funds plc

EFFECTIVE DATE: 18 March 2016

The Fund

LGIM Liquidity Funds plc (the “**Fund**”) is an open-ended umbrella investment company with segregated liability between sub-funds. The Fund is structured as a self-managed investment company. The Fund has been authorised by the Central Bank as an Undertaking for Collective Investments in Transferable Securities (**UCITS**) pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011, as amended (the “**UCITS Regulations**”).

The Fund is managed and its affairs are supervised by its Board of Directors. For details on each of the Directors please refer the Prospectus of the Fund.

1. The Policy

The Fund has established a remuneration policy in accordance with the requirements of Directive (Directive 2009/65/EC), as amended (the “**UCITS Directive**”) to the extent that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

On 31 March, 2016 the European Securities and Markets Authority (“ESMA”) published its final Guidelines on sound remuneration policies under the UCITS Directive and AIFMD (the “ESMA Guidelines”). The ESMA Guidelines provide clarity on the requirements under the UCITS Directive for management companies when establishing and implementing a remuneration policy for certain staff. The ESMA Guidelines will apply from 1 January, 2017. Accordingly, in advance of 1 January, 2017, the remuneration policy will be reviewed and updated where necessary.

This remuneration policy has been adopted by the non-executive members of the Board of Directors in their supervisory function, who have expertise in risk management and remuneration and any revisions to the remuneration policy require approval of such members. All of the Directors of the Fund are non-executive.

It is the Fund's policy to maintain remuneration arrangements that (i) are consistent with and promote sound and effective risk management, (ii) do not encourage risk-taking that is inconsistent with the risk profile of the Fund, (iii) do not impair compliance with the Fund's duty to act in the best interests of its shareholders and (iv) are consistent with the principles outlined in Schedule 1 to this remuneration policy. The Fund's remuneration policy is designed to ensure that any relevant conflicts of interest can be managed appropriately at all times.

The implementation of the remuneration policy will be subject to central and independent review at least annually to ensure compliance with and adherence to the policy.

The remuneration policy itself will be reviewed on an annual basis by the non-executive members of the Board in their supervisory function, who have expertise in risk management and remuneration. As noted above, all of the Directors of the Fund are non-executive.

2. Persons subject to the Policy

The Fund shall apply the provisions of this policy for its ‘Identified Staff’ being “*those categories of staff, including senior management, risk takers, control functions and any employee receiving total remuneration that falls within the remuneration bracket of senior management and risk takers whose professional activities have a material impact on the risk profiles of the management companies or of the UCITS that they manage*”.

The Fund has determined that the following staff members would fall within the definition of “Identified Staff”:

- Members of the Board of Directors; and
- Designated Persons. **Note:** All ‘Designated Person’ functions are currently carried out by members of the Board of Directors.

Delegates

It is noted that Recital 2 of Directive 2014/91/EU (the “**UCITS V Directive**”) outlines that the remuneration policies and practices should apply, in a proportionate manner, to any third party which takes investment decisions that affect the risk profile of a UCITS because of functions which have been delegated in accordance with Article 13 of the UCITS Directive (i.e. this would be Legal & General Investment Management Limited (“LGIM”) in the case of the Fund). This recital is not further clarified in the UCITS V Directive. Accordingly, it is noted the Fund will address this matter in due course once in advance of the ESMA Guidelines coming into effect. However, for the purpose of this policy, as noted above the Fund currently only delegates its investment management activities to LGIM. LGIM are authorised and regulated by the Financial Conduct Authority (“FCA”) and has the permissions necessary to act as a discretionary Investment Manager, as well as Distributor and Promoter to the Fund. LGIM is subject to the FCA’s remuneration code for BIPRU firms which is set out in section SYSC 19C of the FCA Handbook.

3. Remuneration of Identified Staff

The members of the Board of Directors of the Fund receive an annual fixed fee as set out in the Prospectus and do not receive performance-based remuneration therefore avoiding a potential conflict of interest. The fee of a Board member is set at a level that is on par with the rest of the market and reflects the qualifications and contribution required in view of the Fund’s complexity, the extent of the responsibilities and the number of board meetings. No pension contributions are payable on Board members’ fees.

The fee paid to each Director is in respect of their role as Director and ‘Designated Person’. Mr Toms does not receive any fees from the Fund for his role as a Director or ‘Designated Person’.

4. Proportionality Principle

As noted above, the Fund must comply with the UCITS Directive remuneration principles in a way and to the extent that is appropriate to its size, its internal organisation and the nature scope and complexity of its activities. Accordingly, some UCITS can determine to meet the remuneration requirements through very sophisticated policies whereas others can do so in a simple and less burdensome way.

The Fund does not pay any variable remuneration to any of its Identified Staff. Accordingly, the principles in respect of variable remuneration as outlined in the UCITS Directive are not applicable.

With respect to the remuneration committee, the Board has determined the remuneration committee requirement does not apply taking into account the below factors:

- (a) all of the above proportionality criteria (i.e. the Fund's size, internal organisation nature, the scope and complexity of its activities); and
- (b) Article 14b(4) of UCITS V outlines a remuneration committee will be, where appropriate, set up in accordance with the ESMA Guidelines

4. Disclosure

The general principles of the Fund's remuneration policy and the specific provisions for Identified Staff are disclosed internally and documented in this procedure.

In addition, the Prospectus, KIID(s) and annual report of the Fund will subject to any applicable transition period need to contain disclosure with respect to remuneration consistent with the UCITS Directive.

Schedule 1 – Remuneration Principles as outlined in Article 14b of the UCITS Directive

In accordance with Article 14(b)(1) of the UCITS Directive, the Fund must comply with the following principles regarding remuneration applicable to its Identified Staff in a way and to the extent that is appropriate to the Fund's size, internal organisation and the nature, scope and complexity of its activities:

- (a) the remuneration policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking which is inconsistent with the risk profiles, rules or instruments of incorporation of the Fund;
- (b) the remuneration policy is in line with the business strategy, objectives, values and interests of the Fund and of the investors in the Fund, and includes measures to avoid conflicts of interest;
- (c) the remuneration policy is adopted by the Management Body of the Fund in its Supervisory Function and that body adopts, and reviews at least annually, the general principles of the remuneration policy and is responsible for, and oversees, their implementation.

The tasks referred to in this point shall be undertaken only by non-executive members of the Management Body who have expertise in risk management and remuneration.

- (d) the implementation of the remuneration policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the Management Body of the Fund in its Supervisory Function;
- (e) staff engaged in control functions are compensated in accordance with the achievement of the objectives linked to their functions, independently of the performance of the business areas that they control;
- (f) the remuneration of the senior officers in the risk management and compliance functions is overseen directly by the remuneration committee;
- (g) where remuneration is performance related, the total amount of remuneration is based on a combination of the assessment as to the performance of the individual and of the business unit or Fund and as to its risks and of the overall results of the Fund when assessing individual performance, taking into account financial and non-financial criteria;
- (h) the assessment of performance is set in a multi-year framework appropriate to the holding period recommended to the investors of the Fund in order to ensure that the assessment process is based on the longer term performance of the Fund and its investment risks and that the actual payment of performance-based components of remuneration is spread over the same period;
- (i) guaranteed variable remuneration is exceptional, generally occurs only in the context of hiring new staff and is generally limited to the first year of engagement;
- (j) fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to allow the

operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component;

- (k) payments relating to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure;
- (l) the measurement of performance used to calculate variable remuneration components or pools of variable remuneration components include a comprehensive adjustment mechanism to integrate all relevant types of current and future risks;
- (m) subject to the legal structure of a Fund and its fund rules or instruments of incorporation, a substantial portion, and in any event at least 50 per cent of any variable remuneration component consists of shares of the Fund, equivalent ownership interests, or share-linked instruments or equivalent non-cash instruments with equally effective incentives as any of the instruments referred to in this subparagraph, unless the management of each sub-fund of the Fund accounts for less than 50 per cent of the total portfolio managed by the Fund, in which case the minimum of 50 per cent does not apply.

The instruments referred to in this subparagraph shall be subject to an appropriate retention policy designed to align incentives with the interests of the Fund and the investors of such Fund. The Member States or their competent authorities may place restrictions on the types and designs of those instruments or prohibit certain instruments as appropriate. This subparagraph shall be applied to both the portion of the variable remuneration component deferred in line with subparagraph (n) and the portion of the variable remuneration component not deferred;

- (n) at least 40 per cent, of the variable remuneration component is deferred over a period which is appropriate in view of the holding period recommended to the investors of the Fund and is correctly aligned with the nature of the risks of the Fund. The period referred to in this subparagraph shall be at least 3 years; remuneration payable under deferral arrangements vests no faster than on a pro-rata basis; in the case of a variable remuneration component of a particularly high amount, at least 60 per cent of the amount shall be deferred;
- (o) the variable remuneration, including the deferred portion, is paid or vests only if it is sustainable according to the financial situation of the Fund as a whole, and justified according to the performance of the business unit, the Fund and the individual concerned. The total variable remuneration shall generally be considerably contracted where subdued or negative financial performance of the Fund occurs, taking into account both current compensation and reductions in payouts of amounts previously earned, including through malus or clawback arrangements;
- (p) the pension policy is in line with the business strategy, objectives, values and long-term interests of the Fund. If the employee leaves the Fund before retirement, discretionary benefits shall be held by the Fund for a period of five years in the form of instruments referred to in subparagraph (m). In the case of an employee reaching retirement, discretionary pension benefits shall be paid to the employee in the form of instruments referred to in point (m), subject to a five year retention period;

- (q) staff are required to undertake not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements; and
- (r) variable remuneration is not paid through vehicles or methods that facilitate the avoidance of the requirements laid down in the UCITS Directive.