

## **Aberdeen Diversified Income and Growth Trust plc**

### **MANAGEMENT ENGAGEMENT COMMITTEE**

#### **Terms of Reference**

**Updated 7 September 2018**

#### **Constitution**

The Board resolves to establish a Committee of the Board to be known as the Management Engagement and Remuneration Committee.

#### **Membership**

The Committee shall be appointed by the Board from amongst the independent non-executive directors of the Company. A quorum shall be two members.

The Chairman of the Committee shall be appointed by the Board.

#### **Meetings**

The Committee shall meet at least once a year.

The Company Secretary shall be appointed as Secretary of the Committee.

#### **Authority**

The Committee is authorised by the Board to investigate any activity within its terms of reference. The Committee is authorised to obtain outside legal or other independent professional advice where necessary.

#### **Duties**

- The duties of the Committee shall be: to review the terms of the agreements between the Company and those third parties appointed as the Company's Alternative Investment Funds Manager ("AIFM" or the "Manager") and Investment Manager;
- to ensure that the terms of such agreements are competitive, in accordance with industry practice and in the best interests of the Company's shareholders;
- to make recommendations to the Board regarding any proposed amendment to the terms or renewal of such agreements or on the occurrence of any material breach of the terms by either party.
- to review the performance of the Manager and the Investment Manager and consider the appropriateness of their continuing appointment, with a particular focus on:
  - total return performance;
  - management of the revenue account;
  - quality of fund management;
  - commitment to investment trust business
  - strength of relationships with shareholders; and
  - level of fees.

#### **Reporting Procedures**

The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board at the next Board meeting following a Committee Meeting.

## Corporate Governance

The Association of Investment Companies' Corporate Governance Guide for Investment Companies:

**AIC Principle 15** - The board should regularly review both the performance of, and contractual arrangements with, the Manager.

The AIC recommendations are that it should become best practice for a management engagement committee consisting solely of directors independent of the manager (or executives) to make this review annually with its decisions and rationale described in the annual report. The long-term nature of the advantages of investment companies suggests that frequent changes in management arrangements would be undesirable.

Issues include:

- Monitoring and evaluating the Manager's investment performance and, if necessary, providing appropriate guidance.
- Considering the merit of obtaining, on a regular basis, an independent appraisal of the Manager's services.
- Requiring the Manager to provide attribution and volatility analyses and whether it should be published at least annually.
- Putting in place procedures by which the board regularly reviews the continued retention of the Manager's services.
- Reviewing the level and method of remuneration, the basis of performance fees and the notice period.
- The board should give due weight to the competitive position of the company against the peer group.
- Considering whether the initial and annual fee should be based on gross assets, net assets or market capitalisation.
- If there is a performance related element, or the introduction of a performance fee is under consideration, the review should seek to ensure that the basis does not encourage excessive risk and that it rewards demonstrably superior performance by the manager in managing the portfolio against the company's stated objectives when compared to a suitable benchmark or peer group.
- Key factors to be considered include:
  - The views of shareholders
  - Appropriate benchmarks/hurdle rates
  - A reduction in the basic fee when a performance fee is introduced
  - A cap on the performance fee
  - A high water mark
  - A combination of short-term and long-term measurements and incentives

*The AIC has produced a paper entitled "Evaluation of the Manager: A Paper for Non-Executive Directors of Investment Companies on meeting the requirements of the Listing Rules". This is available on the AIC's website at [www.theaic.co.uk/technical](http://www.theaic.co.uk/technical).*