

# Pillar 3 Disclosures

## 1. Background

The Capital Requirements Directive (“CRD IV”) consists of three “Pillars”:

- Pillar 1 sets out the minimum capital amount that meets the investment firm's credit, market and operational risk;
- Pillar 2 requires the investment firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FCA; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

This document is designed to meet IM Asset Management Limited’s Pillar 3 disclosure obligations.

IM Asset Management Limited (company number 05016348; FCA firm reference number 402770) (“the Company”) is a subsidiary of Irwin Mitchell Holdings Limited (“IMH”), and under the FCA rules is categorised as an IFPRU €125K Limited Licence Firm. IMH owns 90.7% of the ordinary shares of IM Asset Management Limited by both voting rights and rights to dividend distributions (the remaining 9.3% being owned by two of IM Asset Management Limited’s directors).

IM Asset Management Nominees Limited (company number 03876644) and IM Asset Management Nominees Number Two Limited (company number 03876642) are non-trading subsidiary companies wholly owned by IM Asset Management Limited.

Investment firms are permitted to omit required disclosures if they believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information. In addition, investment firms may omit required disclosures where they believe that the information is regarded as proprietary or confidential. In the Company’s view, proprietary information is that which, if it were shared, would undermine IM Asset Management Limited’s competitive position. Information is considered to be confidential where there are obligations binding the Company to confidentiality with its customers, suppliers and counterparties. IM Asset Management Limited has made no omissions on the grounds that it is immaterial, proprietary or confidential other than as disclosed in the statutory accounts.

## 2. Scope and application of the requirements

The requirements apply to the Company on a solo basis only. IM Asset Management Limited provides financial planning and portfolio investment management to a range of retail and professional clients and it also provides institutional investment management services. The Company does not make investments on its own behalf and does not operate its own trading book.

## 3. Risk management objectives and policies

### 3.1 Risk management strategy and processes

IM Asset Management Limited is committed to good risk management. The Board considers its actions to be prudent and consistent with its defined risk tolerances, with the prime focus to ensure the best outcome is achieved for the firm’s clients and shareholders. This document provides a summary of the Company’s risk management objectives and policies. The Board has approved the adequacy of these risk management arrangements, providing assurance that the risk management systems put in place are appropriate with regard to the firm's profile and strategy

### 3.2 Risk management structure and organisation

The Board of IM Asset Management Limited (“the Board”) meets monthly. Its composition includes three executive directors (the Chief Executive, who is also the Chief Investment Officer; the Finance Director; and the Chief Operating Officer, each appointed on the basis of their respective experience and span of control) and three non-executive directors (two of whom are shareholders in IMH, the third is an ex-Chief Investment Officer for a large investment management group who also undertakes the role of independent non-executive director). A board pack of documents covering funds under management position, investment performance, financial and capital position (including management accounts), new business activity and work pipeline, operational priorities and a compliance report (including errors and omissions reporting) is reviewed and challenged by the Board at each meeting. The Board pack contains extensive but relevant and timely management information to enable the Board to understand the dynamics of the business and to manage risks appropriately, including consideration of the ongoing appropriateness of capital and liquidity arrangements. This provides the basis for constructive, challenging and open debate in a unitary Board culture.

The Board has established a Risk Committee with formal terms of reference. This is chaired by one of the non-executive directors and membership also comprises the Chief Executive Officer, Finance Director, Chief Operating Officer and the Head of Compliance and Risk. The Risk Committee is responsible for oversight of risk generally and for individual risks within the risk register including ongoing identification, monitoring, managing and reporting of the risks recorded in the risk register. Management of investment risk is delegated to the Investment Committee, which operates under defined terms of reference. Both the Risk Committee and the Investment Committee report directly to the Board. The Risk Committee is the key body responsible for promoting risk management and embedment of risk management processes across the Company, and is assisted in the implementation by an operational risk forum comprising operational managers and risk champions from across the business functions to ensure both “top down” and “bottom up” responsibility.

IM Asset Management Limited’s risk assessments are subject to regular review and scrutiny, and are updated where appropriate. The risk management framework is based on the three lines of defence model. The Risk Committee reviews risks and controls regularly and this includes the annual formal assessment of the level of capital deemed adequate to cover the risks identified. Risks are managed through policies and procedures, principles and rules (including FCA principles and rules), which are updated as required, and each area of the business appoints a risk champion to identify risks and propose and implement controls and mitigations. All significant influence functions are appropriately allocated across the Board and the senior managers within the business.

The Board imposes a strong compliance-based and client-focussed culture across the business, ensuring that all areas have the required level of appropriately-qualified staff to operate it. IM Asset Management Limited has a documented compliance manual and an annual appraisal process to ensure ongoing capabilities of all staff. Key staff are experienced in their field and implement processes and controls to identify risks and ensure that they are mitigated so that errors are prevented, and are able to call on the services of experienced consultants, with the full support of the Board, where this adds value and is more effective than recruiting-in expertise.

### 3.3 Risk reporting and measurement

Compliance monitoring is an important part of risk management and the firm produces and monitors management information to draw out key measurables and variances from acceptable norms. The Head of Compliance and Risk monitors all client-facing staff (in conjunction with a full time Training & Competence supervisor), the advice and investment management processes and ensures appropriate implementation of the training and competence requirements.

The Board has set a low appetite for risk of errors in the performance of all services and activities, and the errors position is monitored monthly at Risk Committee and Board meetings. The Board requires the firm to operate within strict process controls, designed to facilitate ethical behaviour and deliver service levels that do not give rise to client dissatisfaction.

### 3.4 Risk profile

The Board has set a risk appetite statement with clear parameters against which risks are monitored, including processes to identify and mitigate risks that are outside of appetite, the maintenance of a minimum level of headroom above capital requirements, low appetite for risk of errors, and client retention targets. The Board will not permit or approve any action which it perceives to pose a risk to the firm's reputation or clients and, as a result, could cause a significant loss of revenue or cause significant unplanned expenditure. Revenues and expenditure are monitored against adopted budgets and reforecasts by the Board on a monthly basis, with rigorous analysis of variances. The budget is reviewed and updated at least half-yearly.

At the centre of the Board's decision-making process on any project or market issue is to ensure that IM Asset Management Limited can maintain its capital headroom at acceptable levels and protect its reputation and its clients' financial wellbeing. The Board defines events that could lead to a damage to reputation as firm-specific issues that could lead to significant customer and revenue losses or significant unplanned costs, such as (but not limited to) adverse publicity, regulatory sanction, errors in advice or administration leading to significant compensation payments or the failure of client-facing staff to achieve and maintain the required standard of qualifications.

### 3.5 Risk types

The Board has identified that the following risks are the main areas of risk to which IM Asset Management Limited is exposed:

#### *3.5.1 Operational risk*

- The investment management skills and processes employed by the business are key to its performance and ability to attract new assets under management. Whilst the investment strategy is mainly process driven, loss of key individuals could impact the company's results. Replacement of key individuals with the required set of skills could be a time-consuming and expensive process. Succession plans are in place for key personnel.
- The quality of financial advice, investment management techniques and client administration are important aspects of the company's activities. The Risk Committee and Board regularly monitor the performance of these functions to ensure clients receive a quality, competitive service. Staff training is undertaken both internally and externally, and the company requires its employees to undertake Continuing Professional Development with a firm-wide minimum level of hours set. All employees undergo a formal appraisal process every 12 months. An in-house Training and Competence supervisor oversees the appropriate application of the Training and Competence framework to individuals who are registered with the FCA to undertake regulated activities and members of the wider staff team.
- Financial market conditions and movements are outside the control of the business, however the investment management techniques employed and the distribution of assets managed can mitigate the impact on clients' portfolios. The business continually monitors its clients' portfolios to help protect against negative movements and take advantage of positive movements, however underlying investment risk remains. The impact of the implementation of the UK's exit from the EU is being monitored closely.
- The company is dependent on its IT systems to deliver service to its clients. The company assesses the appropriateness of these systems on a regular basis to ensure they are fit for purpose. All electronic data is backed up regularly and stored off site and the company's main operating system is hosted externally at a "Tier 3" data centre based in the UK, which is accessed over a secure internet connection. The company has a documented business continuity plan.

#### *3.5.2 Regulatory risk*

- Adherence to the prevailing regulations is essential to maintain a compliant business. The company has a dedicated Compliance and Risk function to deal with day-to-day matters, which also has access to the additional resource of external consultants where appropriate. The Board also commissions periodic compliance audits and

themed reviews, performed by external consultants, to confirm that the regulations have been adhered to. The company addresses all recommendations arising from such audits and reviews.

### 3.5.3 Credit risk and liquidity risk

- The Company's principal financial assets are bank balances, cash and loans, trade and other receivables, and investments. The Company's credit risk is primarily attributable to its accrued income and the loan to its parent company. The credit risk on liquid funds is deemed to be low because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.
- In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, all cash is held at call and loans made are repayable upon demand.

### 3.5.4 Market risk

- IM Asset Management Limited does not invest on its own account, so it is not subject to market risk as defined by the FCA.

### 3.5.5 Interest rate risk on non-trading book positions

- The Company does not run a trading book, and its non-trading book positions to which interest applies are limited only to deposits held and amounts owed by group undertakings. Given the low interest rate environment, there is limited exposure to interest rate risk. Importantly, the Company does not have any debt and thus is not exposed to financing charges that could increase materially if interest rates were to change, and thus there is limited risk to the cost base of the business.

### 3.5.6 Risks considered by the Board to be non-applicable

- Due to the nature of the Company's activities, the Board believes that the following risks do not apply to IM Asset Management Limited's business model:
  - Equities not in a trading book – the Company does not hold equities or other securities in its own name
  - Securitisations – the Company does not securitise assets

### 3.5.7 Reputational risk

- Failure to address any of the above risks could lead to loss of reputation and potentially loss of clients, thus reducing revenues and impacting clients' financial wellbeing. The Board considers that the company employs sufficient controls and procedures to mitigate such risks.

## 3.6 Remuneration

As noted earlier in this document, IM Asset Management Limited is an IFPRU €125k limited licence firm and is regarded as a "proportionality level three" firm for the purposes of the FCA's Remuneration Code. IM Asset Management Limited's remuneration disclosure (below) is in accordance with the FCA's guidance for proportionality level three firms.

The Board has implemented a remuneration policy in line with the FCA's Remuneration Code. As part of this policy the Board has in place a remuneration committee, comprising the three non-executive directors. The remuneration committee can meet at any time and the quorum is the chairman plus one of the other two non-executive directors. Specifically, the executive directors are excluded from the committee but can be invited by the committee to attend or provide information. IM Asset Management Limited's Head of Compliance and Risk can also request to attend a committee meeting or provide information if there are items that they wish to bring to the committee's attention.

The committee meets to discuss and conclude on remuneration awards, measurement criteria and the ongoing content of the remuneration policy. The committee's focus is on determining the remuneration of senior management and members of staff whose actions have a material impact on the risk profile of the business, however it also considers the remuneration of other staff upon recommendation from the executive directors. No individual is able to determine their own remuneration.

Remuneration comprises basic salary, a discretionary bonus and various other fixed benefits according to individual role grades. Remuneration is determined annually, or more frequently in certain circumstances (eg role changes). In determining remuneration, the remuneration committee considers individuals' and the Company's performance. Individuals' performance is measured using objectives set around a number of cultural drivers in order to provide a multi-dimensional assessment. A number of these drivers focus on good client outcomes and compliance with regulations. For staff in a fee-earning role, the attainment of business targets is only a part of the objective-setting process and the remuneration assessment. There is no minimum (eg inflationary) or standard pay increase and bonuses are not guaranteed. The outcome is to reward staff where there is evidence of not only achieving their objectives but also exceeding them.

IM Asset Management Limited's Board considers that there is only one business activity, which is investment management and the associated financial advice and administration functions. The remuneration committee concluded in its most recent review of remuneration for this business area (undertaken in April 2019 and implemented in July 2019) that the annualised aggregate total remuneration (excluding fixed benefits according to role grades) for senior management and members of staff whose actions have a material impact on the risk profile of the business was to be £2,065,457 (prior year: £1,878,285). This figure covers 20 individuals (prior year: 19) and is split £1,670,207 for fixed remuneration and £395,250 for variable remuneration (prior year: £1,537,035 and £341,250, respectively). No individuals receive more than €1m total annual remuneration.

No severance payments have been paid during the preceding financial year to any staff in roles covered by the disclosure above.

#### 4. Own Funds

Following the conclusion of the statutory audit of the year ended 30 April 2019, the Company held audited capital and reserves as follows:

	£
Called up ordinary share capital	204
Share premium account	25,425
Capital redemption reserve	350,000
Profit and loss account	5,357,744
Total audited capital and reserves	<u>5,733,373</u>

All of the above qualify as "Common Equity Tier 1" capital, as defined in the Capital Requirements Directive. The Company's "Own Funds", being the capital eligible to satisfy its capital requirement, is summarised as follows:

	£
Audited capital and reserves as at 30 April 2019 (per above)	5,733,373
Adjust for intangible assets net of related deferred tax liability as at 30 April 2019	(818,105)
Dividend declared and paid in August 2019	<u>(357,000)</u>
Own Funds	<u>4,558,268</u>

#### 5. Capital requirements

IM Asset Management Limited does not invest on its own account, so it is not subject to market risk as defined by the FCA and does not provide capital in respect of market risk.

IM Asset Management Limited's Risk Weighted Exposure Amount for Credit and Counterparty Credit Risk, and the corresponding amount of capital provided for credit risk is (as of 30 April 2019):

	Risk-weighted exposure amount £	Credit risk capital £
Institutions	674,551	53,964
Corporates	2,246,058	179,685
Retail	540,734	43,259
	<u>3,461,343</u>	<u>276,908</u>

## 6. Summary

The Company has adequate financial resources to meet the risks and stresses identified.

This document will next be updated upon completion of the statutory audit of the financial statements for the year ended 30 April 2020, unless there is a requirement to do so sooner by way of a material change in the Company's eligible capital or Own Funds Requirement.

This statement was approved by the Board on 21 August 2019.