WHITLEY ASSET MANAGEMENT LTD

RISK PROFILE DISCLOSURE

CAPITAL RESOURCES DIRECTIVE
BASEL II PILLAR 3 DISCLOSURE

Year ended 31st December, 2018

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Authorised and regulated by the Financial Conduct Authority

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INTRODUCTION

Whitley Asset Management Ltd (the firm) is classified as a BIPRU firm and, as such, is required to comply with the three Pillars of Basel II (the Capital Requirements Directive). The three Pillars that make up the Capital Requirements Directive are set put below.

Capital Requirements Directive		
Pillar 1	Pillar 2	Pillar 3
Minimum Capital Requirements	Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review and Evaluation Process (SREP)	Disclosure

This document is designed to satisfy the requirements of Pillar 3 by setting out the firm's risk management objectives and policies.

The aim of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements for investment firms and credit institutions that will allow other market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. The disclosures are to be made public for the benefit of the market.

The firm does not use the IRB Approach when calculating its Credit Risk Capital Component. The firm is not subject to consolidated supervision.

All figures in this document are correct at 31st December, 2018 unless stated otherwise.

RISK MANAGEMENT POLICIES AND OBJECTIVES

The firm is a limited company, wholly owned by one of its Directors. The company is authorised and regulated by the Financial Conduct Authority ("FCA") to provide investment management and financial advisory services. The firm's Financial Services Register number is 230690; authorisation was granted on 17th February, 2004. The firm provides investment management and advisory services to a number of wealthy individuals, families and associated trusts and small corporate bodies. The firm does not handle client money. The business seeks to provide an excellent service for its clients.

Where possible, the firm will attempt to manage all the risks that arise from its operations. Because of its permissions and activities the firm is not usually exposed to Credit Risk, Market Risk or Operational Risk. However, the firm has separately considered the risks associated with its business and these are detailed later in this document.

The ways in which the firm manages the risks faced include producing key management information and using Board input to monitor and control specific risks.

Business Risk
The board has carefully considered the various business risks faced by the firm. The most material business risk faced by the firm is in not achieving projected revenues. A significant fall in revenues would feed through to the company's profitability. Significant reductions in turnover could arise as a result of various factors such as a reduction in management fees/trail fees on existing portfolios due to dependence on market values; the loss of a significant portion of the client base; or competitive or economic pressure to reduce fee levels.

Management believes that these risks are mitigated as far as possible by using asset allocation strategies which provide well diversified portfolios and by building strong long term relationships with our clients and maintaining excellent levels of service.

Operational Risk
Operational risk is the risk to the firm resulting from inadequate or failed internal processes or external events such as regulation and also legal and fraud risks. In general terms the firm seeks to mitigate operational risk by implementing robust internal controls in accordance with its risk appetite. Under Pillar 1 the firm calculates its FOR (Fixed Overhead Requirement), based upon a review of its most recent accounts and its business plan; this equates to one quarter of the firm's relevant annual expenditure. In addition to this firms are required to assess the actual level of additional risk not covered by the FOR to determine whether additional capital should also be set aside.

Other Risks
- *Credit risk* - Whitley Asset Management does not undertake regular trading on its own account; the board believes that the firm faces minimal credit risk.
- *Market risk* - Whitley Asset Management does not undertake regular trading on its own account although it currently holds one highly liquid equity investment; the board believes that the firm faces minimal market risk.
- *Residual risk (risk of failure of credit risk mitigation techniques)* - does not apply.
- *Liquidity risk* – Whitley Asset Management does not undertake regular trading on its own account; in accordance with the overall liquidity adequacy rules set out in BIPRU 12.2.1R the firm ensures that it maintains adequate liquid resources to ensure that there is no significant risk that liabilities cannot be met as they fall due.
- *Concentration risk* – Whitley Asset Management does not undertake regular trading on its own account although it currently holds one highly liquid equity investment; the board believes that the firm faces minimal concentration risk.
- *Securitisation risk* – the firm does not have any securitised assets.
- *Insurance risk* – only applies to insurance companies.
- *Pension obligation risk* – the firm currently has no pension obligations.

RISK MANAGEMENT FUNCTION
The directors take risk management seriously and have regular directors'/general staff meetings at which risk may be discussed. As the company is run by two directors and has a small number of executive staff, there is no need to set up a separate risk committee. The

risk aspect of any new potential business is discussed before it is taken forward; ongoing business risk is regularly reviewed; regular regulatory compliance work is undertaken to ensure risk of non-compliance is minimised.

Risk Reporting and Management Systems

There are a number of reports and processes that are employed by the firm to enable key risks to be identified, reported to appropriate personnel for consideration and, where required, action and managed. These include:

<u>Compliance Risk Assessment</u>

This is an assessment of all relevant risks that the firm is likely to face in the next twelve months and is carried out on an annual basis. The outcome is discussed by the Board and is used as the basis for the firm's compliance monitoring for the following period.

<u>Compliance Resource Assessment</u>

This assessment determines the level of compliance resource required by the firm (both internal and external) for the period covered by the compliance risk assessment and will identify shortfalls in resourcing that could lead to compliance weaknesses and breaches. This is performed annually and is discussed by the firm's Board.

<u>Money Laundering Risk Assessment</u>

A forward looking annual assessment of the risks the firm faces from money laundering and wider financial crime. The MLRO will use this assessment to drive the necessary anti financial crime initiatives within the firm.

<u>Compliance Oversight Officer's Report</u>

An annual consideration of the standard of the firm's compliance over the preceding year; this report is presented to the Board for consideration and action as necessary.

<u>MLRO Report</u>

An annual consideration of the standard of the firm's anti money laundering and other financial crime practices over the preceding year. The report is presented to the Board for consideration and action as necessary.

<u>Treating Customers Fairly ("TCF") Review</u>

An annual update and assessment of the firm's TCF profile. This is discussed and approved by the Board.

REMUNERATION

<u>Remuneration Committee</u>

No separate remuneration committee exists; this function is instead undertaken by the firm's directors and is deemed proportionate to the size and nature of the firm.

<u>External consultants</u>

No external consultants have been engaged on remuneration matters.

Remuneration policy for executive directors and other senior managers with a material impact on the firm's risk profile ('Code Staff')

The overall policy is that the remuneration of executive directors and any other Code Staff should comply with the BIPRU Remuneration Code (SYSC 19C), with an appropriate balance being struck between financial performance and risk management. For the purposes of this disclosure note the directors have decided that only the firm's directors currently fall within the requirements of the Code and this disclosure.

- Part of the remuneration of executive directors and any other Code Staff is variable based primarily on the firm's financial and service performance (in particular, client satisfaction) and is also based on individual performance, using predetermined goals to motivate and reward success. It is feasible that no bonus is paid in years where business performance does not merit this;
- Personal reviews of the executive directors and any other Code Staff are carried out at least annually to assess their performance in meeting individual and strategic objectives. These reviews are reflected in pay reviews which take effect from 1st January each year as well as in awards of variable pay.

Remuneration policy for non-executive director

Non-executive director remuneration is reviewed on an annual basis by the executive directors. The non-executive director receives a basic salary and variable pay based on income received by the firm from clients introduced by him. He does not participate in any performance pay scheme, nor does he receive any pension payment (other than being enrolled to the firm's workplace pension scheme) or other benefits.

Information on link between pay and performance

The policy in relation to the various elements of remuneration structures for executive directors and other Code Staff is set out below:

(a) Basic salary

Basic pay for executive directors (as for all employees) is market related thus ensuring a competitive salary that fairly reflects the market rate, skill, experience and expertise for the role. Individual development and progression is reflected through the annual salary and personal review processes.

(b) Variable pay

In addition to their basic salary, all employees have an element of their annual pay review based on the achievement of personal goals. These measures are set to provide challenging objectives, giving an incentive to perform at the highest level in a manner consistent with the firm's interests. Staff salaries are reviewed annually but no bonuses are paid. Directors' variable pay is awarded separately from their salaries. One director, being the firm's sole shareholder, receives his variable pay in the form of dividends which are declared following an assessment of the firm's profitability.

There was no minimum amount of variable pay. During the year ended 31st December, 2018, variable pay for the executive directors ranged from 67% to 99% of total pay.

(c) Benefits
One director has a mobile telephone provided by the firm. The directors may elect to take part of their variable pay in the form of contributions to a SIPP. No other benefits are provided for the executive directors.

(d) Service contracts
The executive directors have entered into contracts that can be terminated by either party on three months' notice or by the payment by the firm of an amount equivalent to three months' remuneration.

Non-executive directors are appointed by letter for an initial term of one year, renewable if mutually agreeable for further years.

<u>Aggregate quantitative information on remuneration</u>
The total aggregated remuneration for the firm's directors in the year ended 31st December, 2018 was £1,722,029 of which £468,413 was paid after the year end.

CAPITAL RESOURCES

The firm's capital resources comprise entirely share capital and audited reserves.

	31st December, 2018 £'000	31st December, 2017 £'000
<u>Tier 1</u>		
Share Capital	-	-
Profit & Loss Account	3,795	2,643
Core Tier 1 Capital	**3,795**	**2,643**
<u>Tier 2</u>		
Nil	-	-
Total Capital	**3,795**	**2,643**

INTEGRATION INTO BUSINESS STRATEGY

It is the intention of the firm to maintain sufficient capital resources to allow it to continue to operate profitably in its chosen sector and to provide a reasonable return for the firm's shareholder. In order to maintain this capital the firm must generate and retain appropriate levels of profits so as to hold suitable financial reserves. This strategy has remained unchanged since the company was established.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS ("ICAAP")

The ICAAP combines Pillar 1 and Pillar 2 requirements and involves a detailed analysis of the various elements of the business to understand the need for capital in the forthcoming period. Various models are tested in the process to identify areas where additional capital may be required to manage the risks to which the firm is exposed. The firm's business is relatively simple and generally regulatory capital is an appropriate measure of the level of capital which should be held within the business.

The result of the ICAAP is challenged by a party independent of document's preparation and this is ultimately reviewed and approved by the Board to ensure that there is sufficient capital within the firm to meet our future plans and anticipated risks.