Pillar 3 Disclosure 2018

1. Background

The Capital Requirements Directive (CRD) of the European Union establishes a regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the UK, CRD has been implemented by the Financial Conduct Authority (FCA). The FCA framework consists of three Pillars:

- Pillar 1: sets out minimum capital requirements firms are required to meet for credit, market and operational risk

- Pillar 2: requires firms to assess the amount of internal capital they consider adequate to cover all of the risks to which they are, or are likely to be, exposed. This is implemented through the Internal Capital Adequacy Assessment Process (ICAAP)

- Pillar 3: requires firms to publicly disclose certain details of their risks, capital, and risk management arrangements.

The rules in the Capital Requirements Regulation (CRR) set out the provision for Pillar 3 disclosure. This document is designed to meet the Pillar 3 obligations for Tilney Group companies (hereafter Tilney). It is also intended to meet, where relevant, the requirements of the Alternative Investment Funds Management Directive (AIFMD), including the ESMA Guidelines on sound remuneration policies issued under the AIFMD.

Tilney is permitted to omit required disclosures if it is believed that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the firm. In addition, disclosures may be omitted where the information is proprietary or confidential. Proprietary information is that which, if shared, would undermine Tilney's competitive position. Information is considered to be confidential where there are obligations binding Tilney to confidentiality with customers, suppliers and counterparties.

2. Scope and application of the requirements

The following Tilney Group entities are covered by this disclosure.

- Tilney Investment Management Services Limited
- Tilney Investment Management
- Tilney Discretionary Portfolio Management Ltd
- Thurleigh Investment Managers LLP
- Tilney Asset Management Services Ltd
- Tilney Asset Management Ltd
- Tilney Discretionary Investment Management Ltd
- Bestinvest (Consultants) Ltd
- HW Financial Services Ltd

- Towry Pension Trustees Ltd
- Tilney Financial Planning Ltd
- Tilney Fund Managers Ltd (under AIFMD)

3. Risk Management

At Tilney Group, risk management arrangements form part of a strong governance culture, built upon the three lines of defence governance model under which primary responsibility for identifying and controlling risks rests with the Group's businesses (the first line of defence). Ultimate responsibility for ensuring the adequacy and effectiveness of risk management rests with the Group Board, with quarterly oversight provided by the Board's Risk and Audit Committee (RAC).

The risk management process for the Group is reviewed annually in the context of the ICAAP. Despite the fact that Tilney is not subject to consolidated supervision for prudential purposes, the Group's Board and senior management believe that it is prudent to consolidate the results and consider the risks facing the Group. This ensures that all key risks are considered and the adequacy of capital assessed against these risks. Stress and scenario testing is also undertaken. The ICAAP Report is reviewed and approved annually, firstly by the Risk and Audit Committee, and then by the Group Board.

The Executive Committee (ExCo) and the Board receive monthly reporting from the Chief Financial Officer on the performance of the Group compared to plans and budgets; this includes reporting on capital adequacy. Monthly reporting is also provided by the Chief Risk Officer (CRO). A quarterly review of material risks is provided to the Risk and Audit Committee. Where material changes to the business occur, the risk profile of the business is reviewed and consideration is given to whether the capital position remains adequate.

Appropriate action is taken where risks fall outside of the Group's risk appetite or where the need for remedial action is required in respect of any weaknesses identified in relation to mitigating controls.

Review of Key Risks

The Group Risk Taxonomy sets out the seven key risk types of most relevance to the Group (level 1 risks), namely strategic, business, financial, investment, regulatory, conduct and operational, and the level 2 risks that sit below each of these. The level 1 risks and the key controls over each are summarised below.

A Group risk register is maintained and key risks are reviewed at ExCo and RAC on a quarterly basis. The ExCo and the Group Board receive a monthly report from the CRO.

Key Risk	Risk Description	Risk Mitigation
Strategic Risk	The risk of current or prospective impact on earnings or capital from inappropriate or defective strategy, failed implementation of business plans, strategies or decisions and/or lack of responsiveness to industry change	A three year business plan is in place and performance against the plan is tracked through the monthly CFO report which is reviewed at ExCo and the Board.

	industry & social change and geopolitical factors.	
Business Risk	The risk that business performance is below expectations due to negative variances in new business volumes, margins, regretted losses & expenses.	Variances to plan are tracked through the monthly CFO report as mentioned above.
Financial Risk	The risk of fluctuations in the value of, or income from, assets as a result of market movements, counterparties failing to meet obligations or liquidity issues (cash insufficient to meet obligations as they fall due). It includes:	
	Market risk -fluctuations in the value of, or income from assets as a result of market movements.	*Market risk* is assessed through regular stress testing by the Chief Investment Officer, the results of which are reviewed by the monthly Investment Governance Committee. The potential impact of severe macro-economic scenarios on capital is assessed as part of the ICAAP to ensure that capital is adequate to withstand such events.
	Credit risk - loss from failure of counterparties to meet financial obligations; and	*Credit risk* is not a significant risk for Tilney. The main risk is in relation to the failure of a material third party provider such as a custodian. Third parties are subject to oversight by the Operational Risk Committee as explained below.
	Liquidity risk - the risk that Tilney is unable to meet its liquidity requirement.	The only liquidity risk that the Group faces is cash flow. Tilney does not trade on its own account, and therefore does not have exposure to intra-day liquidity risk. Client money and assets are held separately. A liquidity risk management framework is in place under the oversight of the CFO who provides monthly reporting to the ExCo and Board. The Group is subject to financial and regulatory covenants and compliance with these covenants is also reported in the monthly CFO pack.

Investment Risk	The risk that clients' investments are not managed in accordance with agreed mandates and/or the Tilney investment philosophy.	Clients' investments are managed in accordance with client mandates. The Tilney investment philosophy and governance structure operate under the oversight of the Chief Investment Officer and the Investment Governance Committee.
Regulatory Risk	The risk of non-compliance with laws or regulations or breakdown in regulatory relationships leading to regulatory sanctions, reputational damage and/or adverse financial impact.	Compliance arrangements are in place and overseen by the compliance function under the CRO who is responsible for ensuring effective engagement with the Group's regulators, particularly the UK FCA. Responses are made to requests from regulators, including thematic reviews. Programmes are in place to prepare for regulatory changes. The Group also has US clients and so must comply with relevant SEC requirements. The requirements of the Central Bank of Ireland and the Guernsey FSC must also be met by the Irish and Guernsey companies.
Conduct Risk	The risk that the behaviour of group companies or individual actions leads to customer detriment resulting in damage to the firm's reputation and brand, increased operating, capital or regulatory costs, lost revenue or destruction of shareholder value.	A conduct risk management framework has been defined and is overseen by the Conduct Risk Committee.
Operational Risk	The risk of inadequate or failed internal processes, people, systems, and/or external events.	The monthly Operational Risk Committee provides oversight over the management of the key areas of operational risk across the business, including operational risk events and proposed mitigating actions, operational losses, data protection and information security, business continuity and material third party outsource providers. Financial crime risks, including money laundering, fraud, bribery and corruption and tax evasion, are considered by the monthly Financial Crime Committee.

		Appropriate insurance cover is in place including in respect of Professional Indemnity, Crime, and Directors and Officers liability. Specialist cover is in place in respect of a cyber-related incident.

Capital Resources

All firms within the scope of this report have a 31 December year end, and report on either a quarterly or six monthly basis to the FCA. Therefore, the most recent reference date on which all relevant firms reported was 30 June 2018 (including audited retained earnings as at 31 December 2017), and the table below shows the position at 30 June 2018.

All firms deduct intercompany debts in full when calculating regulatory capital resources, either as an illiquid assets deduction in the case of the CRD III firms, or as an "Other deduction" from Tier 1 capital for the CRD IV firms.

	CRD III			CRD IV			
Reported Capital Resources Position As at 30 June 2018	Tilney Asset Management	Tilney Asset Management Services	Tilney Discretionary Investment Management	Tilney Discretionary Portfolio Management	Tilney Investment Management	Tilney Investment Management Services	Tilney US Services
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Tier 1:							
Ordinary share capital	1,500	92	400	6,000	12,304	1,050	560
Share premium	-	11,283	21	-	-	-	-
Capital contribution	-	-	-	-	-	11,489	-
Audited retained earnings	3,639	4,698	4,788	14,223	2,480	15,068	3,538
Total Tier 1 Capital	5,139	16,073	5,209	20,223	14,784	27,607	4,098
Deductions from Tier 1:							
Intangible assets	-	(7,077)	-	(3,979)	-	(7,671)	-
Other deductions	-	-	-	(2,954)	(5,137)	(3,244)	(1,757)
Tier 1 capital after deductions	5,139	8,996	5,209	13,290	9,647	16,692	2,341
Tier 2 capital	-	1,447	-	-	-	-	-
Deductions from total capital - illiquid assets	(1,370)	(6,806)	(3,200)	N/a	N/a	N/a	N/a
Total regulatory capital resources	**3,769**	**3,637**	**2,009**	**13,290**	**9,647**	**16,692**	**2,341**

Capital Resource Requirements

All firms, whether on a CRD III or CRD IV basis, are required to calculate Pillar 1 capital requirements as the higher of a) the sum of the credit risk and the market risk capital requirements, and b) the fixed overheads requirement. The firms are not required to calculate or include an operational risk requirement under Pillar 1.

For all firms, the fixed overhead requirement is significantly higher than the sum of the credit risk and market risk capital requirements, and hence is the basis of the Pillar 1 requirement. Given this, further disclosures in relation to the credit risk capital requirements have not been made on the basis of materiality.

Reported Capital Requirements As at 30 June 2018	CRD III Tilney Asset Management	 Tilney Asset Management Services	 Tilney Discretionary Investment Management	CRD IV Tilney Discretionary Portfolio Management	 Tilney Investment Management	 Tilney Investment Management Services	 Tilney US Services
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Credit risk capital requirement	196	170	235	715	493	1,009	52
Market risk capital requirement	-	-	-	-	-	-	-
Fixed overhead requirement	1,207	2,351	595	7,568	4,088	7,473	313
Total Pillar 1 Requirement	**1,207**	**2,351**	**595**	**7,568**	**4,088**	**7,473**	**313**

Capital Adequacy Ratios

The table below shows the capital resources held by each firm compared to the Pillar 1 requirement, along with the total capital ratio. Whilst capital ratios are not reported in this way under CRD IV, this presentation is considered to clearly show the capital position of each entity. All firms show a strong capital position, with a surplus of at least 50% over Pillar 1 requirements.

	CRD III Tilney Asset Management	 Tilney Asset Management Services	 Tilney Discretionary Investment Management	CRD IV Tilney Discretionary Portfolio Management	 Tilney Investment Management	 Tilney Investment Management Services	 Tilney US Services
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total regulatory capital resources	3,769	3,637	2,009	13,290	9,647	16,692	2,341
Total Pillar 1 requirement	1,207	2,351	595	7,568	4,088	7,473	313
Surplus of total capital	**2,562**	**1,286**	**1,414**	**5,722**	**5,559**	**9,219**	**2,028**
Capital ratio (capital resources / Pillar 1 requirement)	*312.3%*	*154.7%*	*337.6%*	*175.6%*	*236.0%*	*223.4%*	*747.9%*

Compliance with Pillar 2 requirements

The adequacy of capital to support current and future activities is monitored in the ICAAP. This includes the application of stress and scenario testing. The overall capital requirement for each firm is then assessed as the higher of Pillar 1 and Pillar 2. The results are reviewed in the context of The Board's risk appetite to ensure that a sufficient buffer is maintained in each entity.

The latest ICAAP has been prepared as at 30 June 2018 and was approved by the Board in November. The Board was able to conclude that the Group and its regulated subsidiaries have adequate capital for current business needs and to support current business plans, including on a stressed basis.

Remuneration code disclosures

The Group is subject to the FCA Remuneration Code (the Code) in respect of remuneration paid to CRD IV categorised code staff (Code Staff). A key objective of the Code is to ensure that remuneration policies promote effective risk management and that pay practices within firms do not encourage inappropriate risk taking by staff or result in an inappropriate quantum of risk remuneration being distributed relative to capital. This disclosure is also intended to meet, where relevant, the requirements of the Alternative Investment Funds Management Directive (AIFMD), including the

ESMA Guidelines on sound remuneration policies issued under the AIFMD in relation to Tilney Fund Managers Ltd.

Proportionality

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA have sought to apply proportionality in the first instance by categorising firms into 3 levels. The Group 's regulated firms fall within the FCA's level 3 and, as such, this disclosure is made in line with the requirements for a level 3 firm. In particular, level 3 firms may, where appropriate, dis-apply the pay-out process rules imposed under CRD IV in respect of variable remuneration. These are the rules relating to payment of remuneration in retained shares or other instruments, deferral, ratio of variable remuneration to fixed remuneration, and post-award performance adjustment. The Remuneration Committee has determined that it is appropriate to dis-apply the structural requirements including the bonus cap requirement. The requirements which have been disapplied include limits on the ratio of fixed to variable remuneration, payment in instruments and deferral.

The ability to apply proportionality under AIFMD is determined through a self-assessment, taking into account the entity's size, strategy, internal organisation, activities and services, as well as the risk profile of their AIFs under management. The Board of Tilney Fund Managers Ltd has determined that it is appropriate to apply proportionality to Tilney Fund Managers and the Remuneration Committee has also approved this approach.

Governance over remuneration

The Tilney Group Limited Board has appointed a Remuneration Committee which is comprised of three of its non-executive directors. The Committee reports directly to the Board. All key remuneration decisions are subject to approval by the Remuneration Committee. In discharging its responsibilities under its terms of reference, the Remuneration Committee works with the Chief Risk Officer to ensure that risks are properly considered in setting the overall remuneration for the Tilney group, and in particularly the incentive structures for the Executive Directors, Senior Management and other key professionals, as appropriate.

The Committee has approved a Remuneration Policy which is reviewed annually. In determining remuneration policy, the Remuneration Committee takes into account all factors it deems necessary, including relevant legal and regulatory requirements and associated guidance, as well as the risk and risk management implications of its decisions. The overall objective is to ensure that the ExCo is provided with appropriate incentives to encourage enhanced performance and that it is rewarded for individual contributions to the success of the Tilney Group, in a fair and responsible manner and in line with market practice at the relevant time.

The Management and Operation of the Remuneration Policy

Reflecting the acquisitions that have taken place and the fact that a range of contracts are in place, The Remuneration Committee has determined that, going forward, all reward decisions will be taken with the following principles in mind:

- Achieve, over time, better consistency across the main underlying businesses in the main compensation components (salary, bonus, pensions and benefits) for equivalent roles;
- Operate a group-wide bonus scheme which incentivises delivery against the base case financial plan, particularly the growth targets, and rewards the contribution people make at an individual and team level;

- Design and implement an incentive plan that rewards long term growth and retention;
- Review total compensation against competitor benchmarks;
- Ensure that we can recruit and retain key talent; and
- Ensure that our approach is compliant and aligned with sound risk management.

These reward principles support the wider vision of being the UK's most recommended financial planning and investment business, through the business objectives of keeping things simple and working together as one team.

Fixed vs Variable Remuneration

Fixed remuneration is set at a level that is sufficient to attract and retain high calibre staff.

Variable incentives may be awarded to eligible employees where the performance of both the Group and the employee substantiates the award and is in accordance with the over-arching principles and parameters set by the Remuneration Committee. This will include bonuses, incentive payments, pension rights and any compensation payments deemed appropriate by the Committee. The Committee keeps the balance between fixed and variable remuneration under review.

The Remuneration Policy allows only for variable remuneration through agreed incentive plans, and the rules of those incentive plans govern the delivery of variable remuneration. Therefore it is not possible to pay variable remuneration through any vehicles which facilitate the avoidance of the remuneration regulations.

Determination of Code Staff

Under CRD IV and the AIFMD, each EU regulated entity is required to identify its Material Risk Takers ('MRTs') (IFPPRU & BIPRU - CRD IV) / Identified staff (AIFMD / UCITS V). These employees are those considered to have material impact on the risk profile of the entity (and its funds under AIFMD and UCITS V). The MRTs / Identified Staff are identified and reviewed on an annual basis by the Remuneration Committee (or relevant entity Board) in line with the criteria set out under EU regulations. In 2017 the outcome was as follows:

- CRD IV - 61 roles have been identified as Material Risk Takers across all the CRD IV entities within the Tilney Group.
- AIFMD – 22 roles have been identified as AIFMD Remuneration Code Staff.

Controlled Functions

The Risk & Compliance function operates independently. The Chief Risk Officer reports to the CEO, and has a reporting line into the Chair of the Risk and Audit Committee and right of access to the Chairman of the Board. The CRO sits on the Executive Committee and attends the Board's Risk Audit Committee.

The Risk and Audit Committee approves the appointment/dismissal and the remuneration of the CRO. The method of determining the remuneration for the CRO is based solely on the achievement of KPIs, with no corporate modifier. This helps ensure independence and objectivity in this role.

The CRO undertakes a review of proposed discretionary incentive payments to assist the Remuneration Committee in determining if any bonus should be reduced (or not paid), or if the overall bonus pool should be reduced, for example due to breaches in risk management or compliance requirements.

Remuneration of Code Staff and Material Risk Takers

The remuneration paid to the 61 Code Staff and MRTs is as follows:

	£'000
Fixed remuneration	£6,700
Variable remuneration (all cash)	£2,045
Total Remuneration	**£8,745**

No single individual received remuneration in excess of Eur 1 million.