



PILLAR III DISCLOSURE

Based on the MAML Internal Capital Adequacy Assessment Process
("ICAAP's") Reference Date of 31 December 2019

MIRABAUD ASSET MANAGEMENT LIMITED ("MAML")



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1. INTRODUCTION AND BACKGROUND

1.1. Overview

The Capital Requirements Directive IV (CRDIV) and its attendant Capital Requirements Regulation (CRR) and Guidelines establish a regulatory capital framework across the EEA governing the amount and nature of capital, Own Funds that credit institutions and investment firms must maintain as a minimum in order to meet their Overall Capital and Liquidity Adequacy obligations. In the United Kingdom, the Financial Conduct Authority (“FCA”) authorises and regulates Mirabaud Asset Management Ltd (“MAML”). With effect from 1 January 2014 it is subject to the Capital Requirement Directive IV (“CRDIV”), and other relevant regulations including:

- the Capital Requirements Regulation (EU) No 575/2013 (“CRR”);
- the FCA IFPRU Sourcebook (“IFPRU 2”) of the FCA Handbook; and
- additional standards released by the European Banking Authority.

The capital requirements framework consists of the following three “pillars”:

Pillar 1 sets out the minimum “Own Funds” Requirements that MAML is required to hold.

Pillar 2 requires MAML to assess whether they should hold additional Own Funds against risk not covered (or inadequately covered) at Pillar 1. This is determined by MAML undertaking an Internal Capital Adequacy Assessment Process (“ICAAP”). The FCA will review and evaluate the ICAAP as part of its independent Supervisory Review and Evaluation Process (“SREP”) and in appropriate cases may require Firms to increase their Capital provision.

Pillar 3 requires MAML to disclose publicly certain details about the level of Own Funds it deems necessary, its internal risk management arrangements and the levels of remuneration paid to certain staff. The formal Pillar 3 disclosure requirements are contained in CRR Articles 431 to 455.

The objective of this disclosure is for MAML to meet its Pillar 3 disclosure requirements including that of remuneration.

1.2. Scope of disclosures

The disclosures included herein relate to MAML, which is authorised and regulated by the FCA with Firm Reference No 122140.

1.3. Disclosures Frequency and Verification

MAML will update and publish these disclosures at least annually and more frequently in the event that there is a material change in the Firm’s business undertaking which results in the ICAAP having to be reviewed mid-term. Such material events could include changes in the nature, scale and complexity of MAML’s operations, its range of activities, its global presence, involvement in different financial sectors, participation in international financial markets and payment, settlement and clearing systems, or significant changes to its regulated activity (Part 4A) “permissions”.

1.4. Means of Disclosure

These disclosures have been prepared for the purpose of fulfilling MAML’s disclosure requirements under Pillar 3 of the CRR. MAML’s Board of Directors (the “MAML Board”) has approved the disclosures.

The disclosures are published on MAML’s website following the link set out below:

<https://www.mirabaud.com/en/international-presence/country-detail/country/united-kingdom/>



1.5. Corporate Background

As detailed in MAML accounts, the majority of MAML's revenues are derived from *ad valorem* fees on funds and mandates under management.

2. RISK MANAGEMENT ANALYSIS

2.1 Corporate Governance Arrangements Board Composition and Diversity

When selecting senior managers and members of the Board, MAML considers a range of criteria, including relevant skills and background as well as expertise and knowledge of the business. In addition, MAML takes into account the benefits of diversity as set out in its Diversity Policies relating both to Officeholders (Board Composition) and Employees.

2.2 Risk Management Objectives and Policies

MAML's Board determines the Firm's business strategy and risk appetite. It has designed and implemented a risk management framework that recognises the risks that business faces and how those risks may be mitigated and assessed on an ongoing basis.

The London Executive Committee is an Executive Committee accountable to the MAML Board, which meets on a regular basis and discusses projections for profitability including aspects of sales and marketing, new business and operational projects, investment management, liquidity, regulatory capital, business planning and related risk management.

MAML has identified the following as key categories of risk to which MAML is exposed and has adopted the following strategies and processes to manage these.

2.3 Credit Risk

Credit risk is the risk that an amount due from a third party is not available on demand.

To mitigate this risk, MAML regularly monitors amounts due from its clients, banks or suppliers using established cash flow projections and promptly refers any serious and/or material issues regarding late or delayed payment in writing to Senior Management for resolution.

MAML's material exposure is predominantly to counterparties in the EEA, with most balances falling due within one month and up to three months for discretionary investment management clients. All Bank balances (without exception) are repayable to MAML upon demand.

2.4 Settlement Risk

Settlement risk is the risk that on the settlement date a counterparty defaults on its obligation to make payment for a securities transaction after MAML has fulfilled its obligation to the counterparty.

As MAML is a € 125k IFPRU "Limited Licence" Firm and is expressly not permitted to deal in investments as Principal, settlement risk does not currently form part of the Company's Risk responsive Framework.

2.5 Market Risk

MAML is not directly exposed to market risk as it does not undertake trading book activities for its own account nor does it hold any principal trade book positions (unless such positions arise exceptionally as a consequence of rectification of potential trading errors conducted on an agency basis for its clients).



As a Limited Licence Firm MAML's only exposure relates to Foreign Exchange Rate Position Risk ("FERPR"). FERPR is the risk of assets value on its Balance Sheet denominated in a currency other than the currency of its Accounts as a consequence of foreign exchange changes. MAML mitigates this risk by having Liquidity Management Policy which facilitates management and hedging of foreign currency balances held by MAML.

2.6 Operational Risk

Operational risk is the risk of material expense resulting from inadequate or failed internal processes, people or systems or from external events. Although MAML is not subject to a formal Pillar 1 operational risk requirement, Operational Risk is considered to be a significant risk and MAML does, therefore, have strong operational controls in place to manage and mitigate these risks. This risk and its mitigants are assessed as part of the MAML ICAAP.

MAML maintains a detailed risk register to help monitor, manage and mitigate operational risk issues, and to record, monitor and evaluate operational risk incidents.

2.7 Liquidity Risk

Liquidity risk is the risk that MAML will not be able to meet its financial obligations as and when they fall due or that access to liquid funds is not available on commercially viable terms. This risk affects MAML at various levels, ranging from the requirement to have sufficient funds to settle its short-term liabilities as they fall due to the funding required for longer-term strategic plans.

MAML mitigates liquidity risk by ensuring that it has diversified its sources for funding. MAML maintains its liquid capital as cash deposits at banks and does not currently use longer term deposits or fixed income instruments. MAML has a detailed liquidity management policy and a liquidity contingency plan in place.

2.8 Business Risk

Business risk is the risk that MAML will have lower than expected revenue as a result of a decrease in assets under management and may result in losses that will hinder Firm's ability to finance its operations and reimburse its expenses. MAML business risk also includes the loss of key staff members, which can be detrimental to MAML's future.

MAML addresses the above business risks by ensuring that MAML has a clear business strategy which is determined by the MAML Board. To mitigate business risk and strategic risk, MAML gives careful consideration to all strategic decisions including any investment products for which it acts as distributor. All available information is reviewed and discussed by MAML Board and Senior Management where appropriate. Before introducing any new product or business line to its operating model, MAML will thoroughly assess all potential risks including; financial crime, financial or operational, and the systems necessary to minimise these risks prior to release.

Business risks are also reassessed in detail as part of the Company's ICAAP using scenario and stress testing to take account of any revisions to current operating activities.

2.9 Reputational and Conduct Risk

Reputational risk is the risk of loss resulting from damage to MAML's reputation. Good reputation is difficult to build and maintain but very easy to lose, MAML seeks actively to mitigate its reputational risk. MAML expects all officers and employees to conduct themselves professionally and with integrity at all times. MAML expects all, officers and employees to maintain a good relationship with clients and potential clients as well as other third parties, including competitors, lawyers, accountants, bankers, regulators, and HM Revenue and Customs. Officeholders and Employees discharging specific Senior Manager and Certified Person Functions have specific continuing obligations regarding compliance with proscribed regulatory standards of fitness and propriety including an FCA Code of Conduct (COCON) that they must meet and continue to satisfy as a precondition of appointment. Independently the Firm performs fitness and propriety checks including criminal records and credit history at employee induction and periodically thereafter in addition to annual self- attestation.

Conduct risk is managed through strong top-down corporate governance. The MAML Board is responsible for setting the tone, actively supporting reputational risk awareness and reinforcing a risk management culture by creating and encouraging awareness at all levels within MAML in order to promote good conduct.



More specifically MAML endeavours to respond promptly and accurately to all third parties regarding any matters of concern be they Regulators, Competent Authorities, Clients or other Industry Professionals. Any issues are handled in accordance with FCA procedures and MAML's formal complaints handling procedure. The MAML Board is informed of any significant complaints received as a matter of routine, reports are provided on how these are being dealt with, and any emerging risks or financial exposures presenting as a result.

Other practical mitigation techniques include thorough vetting of new staff members, periodic vetting of established employees, strict know-your-customer and formal account opening procedures to ensure MAML transacts only with appropriate counterparties and to ensure maintenance of a comprehensive system of internal controls and practices, including the upkeep of detailed risk and conflicts registers.

The Firm applies a "three lines of defence" model incorporating (i) initial Line management responsibility (first line), (ii) Compliance oversight in accordance with a Compliance Monitoring Programme (second line) and finally (iii) formal testing and reporting as to the efficacy of the business framework and related systems and controls by a Group Internal Audit function (third line) reporting to MAML's parent entity.

3 CAPITAL REQUIREMENTS

3.1 Regulatory Capital Requirement and Accounting

The regulatory capital requirements consist of two pillars. Pillar I sets out the minimum capital requirements that firms must meet to cover minimum credit and market risk if greater than its (FOR) requirement see below . Pillar II requires firms to assess whether they should hold additional capital to cover risks not covered or inadequately covered at Pillar I. These are calculated, monitored and managed as part of a firm's ICAAP process. The FCA may review and evaluate the adequacy the firm's ICAAP as part of the Supervisory Review and Evaluation Process ("SREP").

MAML's maximum Pillar I capital resources requirement is the higher of:

- MAML's Fixed Overhead Requirement ("FOR");
- the sum of its Credit and Market Risk requirements; and
- the Base Capital Resources Requirement of €125K.

Currently MAML's minimum Pillar I requirements are based on FOR calculated on the aggregation method as this requirement currently exceeds the sum of its Credit and Market Risk and exceeds its base Capital resources requirement .

As at 31 December 2019, MAML held £3,564m (2018: £5,626m) of Tier 1 Capital (described in section 3.2) and had an excess of £541k over its minimum Pillar I Capital requirement of £3,023m (which is equivalent to audited Firm's Fixed Overhead Requirement for the year ended 31 December 2018).

MAML calculates its Pillar II capital requirements as part of its continuous ICAAP process. This includes an assessment of all possible risks that might affect MAML's ability to conduct its business. MAML calculated that its Pillar II capital requirement for the year ended 31/12/2019 is £3.5m, which provides an excess of £0.1m over its Tier 1 Capital.

MAML's accounting reference date is 31 December. The assumptions used in the assessments are that accrued income is invoiced and receivable within 90 days and any illiquid assets are included in the credit risk capital calculation.



3.2 Own Funds (Tier 1)

MAML has always taken a very conservative view of its level of regulatory capital, ensuring that there has at all times been more than sufficient liquid capital to meet its regulatory requirements.

MAML's capital resources comprise Tier One Capital in the form of issued and fully paid share capital or partners' capital and audited reserves (including if prudent audited net interim profits). Internally, MAML has determined an amount of audited reserves that are not available for distribution.

MAML's solo capital resources are calculated in accordance with the IFPRU resources table for an investment group deducting material holdings.

4 REMUNERATION

4.1 Overview

In accordance with remuneration disclosure requirements set out in Article 450 of the CRR, MAML provides the following disclosures regarding its remuneration policy and practices for those categories of staff whose professional activities are considered to have a material impact on its risk profile.

As an IFPRU €125K Limited Licence Firm, MAML is placed into Proportionality Level 3 pursuant to the FCA's rules, thus allowing MAML to disapply certain remuneration requirements as being disproportionate on a case by case basis.

MAML has a Remuneration Policy Statement and the MAML Board via a separate Remuneration Committee chaired by a Non-executive Director assumes responsibility for the implementation of the policy, incorporating compliance considerations in accordance with the principles of the FCA's Remuneration Code set out at SYSC 19A of the FCA Handbook.

4.2 Identification of Remuneration Code Staff

MAML has identified the following categories of staff to be Remuneration Code Staff within the meaning of the FCA's Remuneration Code. These are employees whose professional activities have a material impact on the firm's risk profile including any employee who is deemed to have a material impact on the firm's risk profile, in accordance with regulation EU 604/2014 of 4 March 2014. (Regulatory Technical Standards to identify staff who are "material risk takers") ;

- Individuals who perform Senior Management Functions (SMFs).
Also Senior Managers (by whatever name called), who fulfil oversight functions (e.g. NEDs) that are not SMFs but whose activities involve or might involve a risk of "significant harm" to the Firm or to anyone who is using or may be contemplating using the services of the Firm
- Risk takers, defined as those members of staff whose professional activities could have a material impact on the firm's risk profile including Certified Persons not necessarily fulfilling formal oversight functions.
- All staff whose total remuneration otherwise takes them into the same bracket as Senior Management and whose activities could have a material impact on the firm's risk profile.

MAML is also required to consider whether additional individuals, such as special advisors, may fall within the definition of Remuneration Code Staff. As at 31 December 2019 MAML has not identified any special advisors that may fall under the definition of Remuneration Code Staff.

MAML reviews the list of Remuneration Code Staff at least annually and more frequently as required, for example, when new senior staff are recruited.



For the financial year 2019, MAML had identified 33 Remuneration Code Staff of which 25 are entitled to variable compensation.

4.3 Remuneration Structure and the Link between Pay and Performance (CRR Article 450(b))

MAML awards staff a combination of fixed and variable compensation. The fixed portion is sufficient to allow MAML's variable compensation to be entirely flexible. MAML sets variable compensation in a way that takes into account individual performance (both qualitative and quantitative), the performance of the relevant business unit and MAML's overall results. MAML has **three** variable compensation schemes in place, each described below.

4.3.1 Operations and Management Staff – Scheme 1

Variable remuneration is determined by an evaluation of the individual's non-financial performance criteria. Remuneration is also directly linked to the performance of MAML as a whole and may be varied according to an increase or decrease in profits.

MAML has currently identified 5 Non-Executive Directors and 3 Operations and Management Staff who are considered to be Remuneration Code Staff, but these individuals are not entitled to variable compensation

During the financial year 2019, 7 Operations & Management Remuneration Code Staff employee were entitled to variable compensation under this scheme.

4.3.2 Fund Management Staff – Scheme 2

Variable remuneration consists of a share in a pool of variable remuneration linked to the performance generated by investment teams compared to benchmarks and/or peer groups and a payment based on the amount of assets under management. Remuneration is also linked directly to the performance of the individual and MAML as a whole and may be varied according to an increase or decrease in profits. A percentage of the variable remuneration, subject to a minimum total compensation threshold, is deferred and payable over three years.

During the financial year 2019, 14 fund management Remuneration Code Staff were entitled to variable compensation under this scheme.

4.3.3 Marketing & Sales Staff – Scheme 3

Variable remuneration is based on revenues generated by the acquisition and retention activity of the Institutional Relationship Managers. Remuneration is also directly linked to the performance of the individual and MAML as a whole and may be varied according to an increase or decrease in profits.

During the financial year 2019, 4 Remuneration Code Staff members were entitled to variable compensation under this scheme.

4.4 Aggregate quantitative information on remuneration

CRR 450(g) requires MAML to disclose the total amount of remuneration per business area:

CRR 450(h) requires MAML to disclose the following additional information about the amount of remuneration:

- (i) The total amount of remuneration for the financial year 2019 due to 33 Remuneration Code Staff was £ 6,962,590. Of this,
- (ii) £3,914,365 was fixed and £3,048,225 was variable remuneration. Both variable and fixed remuneration is paid in cash only.
- (iii) The amount of outstanding deferred remuneration as at 31 December 2019 was £1,313,450 of which £523,596 vested and £627,365 remains unvested.
- (iv) For the financial year 2019 £627,365 of deferred remuneration was awarded and £ Nil paid.

No individual was awarded remuneration in excess of EUR 1 million.