Pillar 3 Disclosures as at 31 December 2017

1. Capital resources

1.1 Introduction

Eurizon SLJ Capital Limited (ESLJ) is authorised and regulated by the Financial Conduct Authority (FCA). It is subject to the FCA's prudential rules for banks, building societies and investment firms. The rules, which are designed to increase investor protection, require ESLJ to assess the adequacy of its capital resources given its risks.

The prudential framework for investment management firms consists of 'three pillars'.

Pillar 1 sets out the minimum capital requirements for the investment manager to cover credit, market and operational risk. Pillar 2 requires firms to undertake an overall assessment of their capital adequacy, taking into account the risks to which they are exposed and whether additional capital should be held to cover risks not adequately covered by Pillar 1 requirements. Pillar 3 compliments Pillars 1 and 2 by requiring firms to disclose information on their capital resources and requirements, governance and risk management framework. It also requires disclosure of a firm's remuneration policy for certain categories of staff.

This document is designed to meet ESLJ's Pillar 3 obligations. Firms are permitted to omit disclosures if they believe the information is either immaterial or if the information could be regarded as proprietary or confidential.

1.2 Basis of disclosures

ESLJ is a discretionary investment manager based in London and incorporated in England and Wales as a limited company. It provides discretionary investment management services to professional clients and other companies within the Eurizon Capital group, the asset management arm of Intesa Sanpaolo. ESLJ is a 'Limited Licence' firm with a requirement to hold capital of at least €50,000. It is not authorised to hold customers' assets, including client monies, and it does not trade on its own account. The Pillar 3 disclosures are based on the Group's financial position at 31 December 2017. The information included in this document is unaudited and has been produced solely to meet the Pillar 3 disclosure requirements.

1.3 Risk management framework

The Board of ESLJ determines the business strategy and risk appetite and the design and implementation of a risk management framework. ESLJ has established a risk management framework appropriate for the size and nature of its business. Under its business model it does not give investment advice; it does not hold customers' assets and all assets managed or advised by ESLJ are held by large independent custodians; ESLJ does not hold client monies; ESLJdoes not take positions as principal.

The main risks to which ESLJ is exposed are set out below.

<u>Operational risk</u>

Operational risk is the risk of loss arising from failed or inadequate internal processes or systems, human error or other factors. The risk is managed by senior management, who have responsibility for implementing appropriate controls for the business. The compliance function reviews the operation of these controls.

<u>Market risk</u>

ESLJ does not hold positions in market-related assets. ESLJ's revenue is,however, exposed to market movements and, therefore, market risk. If the assets under management (AUM) fall, the fees earned from those AUM will reduce.ESLJ has mitigated some market risk by looking to broaden its client base and the asset classes in which it invests for clients.

<u>Liquidity risk</u>

Liquidity risk is the risk that the group may be unable to meet its payment obligations as they fall due. ESL's liquidity policy is to maintain sufficient liquid resources to cover any cash flow imbalances in fees received or receivable. ESLJ continually monitors income and spending levels to ensure there is always enough liquidity.

<u>Credit risk</u>

Credit risk refers to the likelihood that customers fail to meet their obligations as they fall due. Brompton has limited credit risk from the non-payment of investment management fees because most clients have their fees deducted from their underlying portfolios. ESLJ also has a credit exposure to its banks but this is considered remote.

<u>Client risk</u>

A significant loss of large clients would result in reduced fund management revenue. ESLJ has mitigated this risk by diversifying its client base, obtaining long-term contracts where appropriate and possible, managing Group assets and by concentrating on delivering investment performance and client service.

Investment performance risk

Investment performance risk is the risk that funds or accounts underperform.

Underperformance could result in reduced revenue and redemptions by clients and could also adversely affect the growth of the business. ESLJ mitigates this risk by having a robust investment process, experienced fund management personnel and the involvement of risk and performance personnel in the investment process.

Regulatory risk

Regulatory risk is the risk that a change in the regulations or the interpretation of them will affect Brompton's business significantly.Regulatory developments are monitored by compliance and the implications of changes are considered and dealt with.

1.4 Regulatory capital

ESLJ's capital requirements are the greater of:

Its base capital requirement of €50,000; or
the sum of its market and credit risk requirements; or
its 'Fixed Overhead Requirement' (FOR), which is assessed to be £ 742,713.

As at 31 December 2017, ESLJ held audited Common Equity Tier 1 Capital of £ 1,089,639. The internal capital to be held against the Firm's Pillar 1 Own Funds Requirement is £ 742,713, which represents the Variable Capital Own Funds Requirement (as defined in the FCA's rules). This is the figure that the Board has assessed as satisfactory to meet the requirement and is believed to be sufficient to cover all risks identified. Therefore, ESLJ total Regulatory Capital is in excess of the Own Funds Requirement, and this surplus, along with Liquidity, is monitored and reported regularly to the Board to ensure ESLJ has sufficient capital and liquidity to meet its regulatory requirements at all times. Any potential future failures will be identified in the projected budgets and addressed internally in advance of any actual breaches.

2. Remuneration code

ESLJ is classified as a proportionality level 3 firm in accordance with the FCA's 'Remuneration Code' (Code). Given the size and nature of its operations, ESLJ has not established a separate remuneration committee. Instead ESLJ's Board has responsibility for the overall remuneration philosophy and for determining the remuneration of staff. Apart from a salary, they may benefit from additional rewards that recognise their individual performances in a particular period. Such rewards take into account a number of different factors including the promotion of sound and effective risk management, the level of risk taking, compliance and building a long-term business.

ESLJ has identified its Code staff for the financial year to 31 December 2017, comprising those fulfilling controlled functions, those who are deemed risk takers, senior management and senior asset managers. The estimated total remuneration in respect of the year to 31 December 2017 for Code staff was £ 1.34 million.