Miton Group plc

Pillar 3 Disclosure

1. Overview

1.1. Introduction

This document is a summary of the Pillar 3 disclosure requirements that are required to be disclosed under the Capital Requirements Directive (CRD) as laid out in Chapter 11 of BIPRU. Miton Group plc ('**MGR'**) and its subsidiaries (collectively, the "**Group**") is required to disclose certain information relating to risk management and the levels of capital adequacy. Pillar 3 complements the other two pillars of the regulatory reporting regime:

Pillar 1 - Minimum Capital Requirements calculated in accordance with the BIPRU rulebook
Pillar 2 - Capital requirements identified by the ICAAP and supervisory review process

1.2. Group Summary

MGR is the parent company of two fund management companies authorised to do business in the UK; Miton Asset Management Limited ("**MAM**") and Miton Trust Managers Limited ("**MTM**").

MAM does not underwrite MiFID financial instruments and/or place MiFID financial instruments on a firm commitment basis, nor does it deal in financial instruments for own account. MAM does not take any proprietary market positions and its market risk is limited to foreign currency movements on its overseas offices balances. MAM is, therefore, prudentially categorised as a BIPRU firm for the purposes of the FCA Rules and, consequently, calculates its Pillar 1 capital requirement as the highest of € 50,000, its fixed overhead requirement ("**FOR**") and the sum of credit and market risk capital requirements. MTM acts as the Alternative Investment Fund Manager ("**AIFM**") to four investment trusts that are managed by the Group. It also has permission under Part 4A of the Financial Services and Markets Act 2000 to carry on the regulated activity of managing a UCITS and to provide certain MiFID services. Consequently, MTM is prudentially categorised as a "collective portfolio management investment firm" for the purposes of the FCA Rules and its regulatory capital calculation contains an additional element based upon the value of its assets under management.

MGR and its subsidiaries (including MAM and MTM) form a consolidation group for the purposes of the FCA's regulatory capital rules. MAM and MTM are fully consolidated with the other entities in the Group for both accounting and prudential purposes. As a BIPRU firm, MAM is required to make Pillar 3 disclosures on a consolidated basis covering the entire Group.

The Pillar 3 Disclosures are based on audited figures as at 31 December 2016. The Group expects to update the Pillar 3 Disclosures annually, unless it determines that a more frequent update is appropriate.

The Pillar 3 Disclosures can be found on the Group's external website at the following URL: http://www.mitongroup.com/downloads/corporate/aim26/Pillar3Disclosure.pdf.

MGR's board of directors and the respective boards of directors of MAM and MTM have reviewed the information in the Pillar 3 Disclosures. The Pillar 3 Disclosures have not been audited or reviewed by the Group's external auditors.

Following our assessment, the key risks to which the Group is exposed have been identified within Operational, Business, Credit, and Liquidity Risk categories. An appropriate risk management framework is in place to manage these risks. The risk identification and quantification approach adopted serves the risk management needs of the business well and is considered thorough and appropriate to the size, nature and complexity of the Group.

1.3. Group Structure

As at 30 June 2017, the Group consisted of the parent company and 10 subsidiary companies of which three have been placed into solvent members' voluntary liquidation. The general classification of the companies is as follows:

Parent company	1
FCA – BIPRU firm	1
FCA – CPMI firm	1
Former FCA – BIPRU firm – dormant	2
Hong Kong based (not requiring regulation)	1
Non trading (employee share schemes)	1
Other non-trading & dormant	4

Regulated companies within the Group

Company	Ref used in document	FRN	Type of entity	Business
Miton Asset Management Ltd	MAM	115241	BIPRU	Fund Management
Miton Trust Managers Ltd	MTM	220241	CPMI	Fund Management & AIFM

CPMI = Collective Portfolio Management Investment firm

1.4. Group Capital Summary

As mentioned above, the FCA has prudentially categorised MAM as a BIPRU firm and MTM as a CPMI firm (with BIPRU firm status in relation to its MiFID activities). Consequently, notwithstanding that the EU legislative package known as "CRD III" has now been repealed by a newer EU legislative package (known as "CRD IV") the Group's capital resources and capital resources requirement are, nevertheless, still required to be calculated in accordance with the FCA's rules that are based on the CRD III (as set out in the FCA's GENPRU and BIPRU rulebooks).

Using the standardised approach, the Group calculates its credit risk requirement as a percentage of the risk weighted exposure amounts as determined by the FCA. Market risk is calculated using the foreign currency position risks requirement ("PRR") method. The Group's market risk requirement was £0 as at 31 December 2015 using the PRR method.

The sum of the Group's credit and market risk requirements was greater than its base capital requirement but less than its FOR and or its Pillar 2 risk assesses capital requirement as at 31 December 2015. The Group's FOR (as the highest of the three amounts described in Section 1.2 above) represents its Pillar 1 regulatory capital requirement for MAM and all other companies than MTM. The FOR is calculated as 13 weeks' fixed expenditure based on the most recent audited financial statements. The FOR for MTM was less than the MTM Pillar 2 requirement and accordingly the Pillar 2 figure replaced the FOR. The Group has calculated its' FOR on a consolidated basis based on the audited financial statements of MGR for the year ended 31 December 2015.

The Group's consolidated regulatory capital requirement was approximately £5,297,000 as at 31 December 2016. The actual capital held by the Group as at 31 December 2016 was approximately £18,117,000, a surplus of approximately £12,819,000.

The Group prepares consolidated capital resources and capital resource requirements for the Group; a summary of which, for the year ended 31 December 2016, is reproduced below.

Regulatory Capital as at 31 December 2016	£ '000
Total Tier 1 capital after deductions*	18,117
Total Tier 2 capital**	0
Total Tier 3 capital**	0
FSA Capital Resource Requirement (CRR)	(5,297)
Surplus	12,819

* Tier 1 capital is comprised of fully paid, called up ordinary share capital and externally audited earnings less regulatory capital deductions
** The Firm does not have any additional Tier 2 or Tier 3 capital resources or deductions

1.5 Corporate Governance

MGR has in place a governance and committee structure that serves the Group's business well and is considered appropriate for the size, nature and complexity.

Whilst AIM quoted, the Group is exempt from the provisions of the UK Corporate Governance Code, however, it is the policy of the Board to comply with the code's main provisions in so far as possible and appropriate to the Group's size and the firm has adopted the QCA Corporate Governance Code for smaller listed companies which the directors believe is more appropriate to the size of the company.

As at 30 June 2017 the Board composition is made up of an Chairman (Ian Dighé), CEO (David Barron), COO (Piers Harrison), Director and Head of Investment (Gervais Williams) and three non-executive directors. Mr Alan Walton, a former partner of Deloittes LLP is non-executive Deputy Chairman and Jim Davies is non-executive Senior Independent Director ("SID").

The formal Board committee structures include;

- Audit Committee – Chairman is Alan Walton (NED)
- Remuneration Committee – Chairman is Katrina Hart (NED)
- Nominations Committee – Chairman is Alan Walton (NED)

The Board has oversight of the Senior Executive Group ("SEG") which is responsible for the day to day management of the Group activities. The members of the SEG include all executive directors of the parent company, the Finance Director, the Head of Compliance and the Group Company Secretary, who acts as Head of Governance.

There is no Internal Audit function and currently the Directors do not believe that there is a need for one, however, this position is reviewed at least annually. The Directors recognise their responsibility for the Group's systems and controls and operational risk management and for regularly reviewing its effectiveness. An integral part of this process includes reviewing the Group's risk assessment and the maintenance of the ICAAP.

1.6 Risk Appetite & Risk Management

The Board carefully considers its attitude to and sets the Group's appetite for risk. It is reviewed annually as part of the ICAAP, presented to and approved by the Senior Executive Group and the Board. The Group's overall risk appetite is deemed as low/ medium low for existing and new business areas. The Group provides discretionary fund management to its clients (the funds) and as such its risk appetite is low/ medium-low risk which is evidenced by its current business plans towards growth. To ensure continuous operations and profitability, there is a conservative approach to risk control, which includes the risk appetite being satisfied and the management of risk. In setting the Group's risk appetite, consideration was given to the key areas of risk and where management need to assess the adequacy of the controls to mitigate those risks. This information is reviewed by the Senior Executive Group and the appropriately authorised Committees on a regular basis. The key risk areas in terms of risk appetite identified are:

- **Investment performance and reputation**

Client satisfaction and treating customers fairly is central to the Group's strategy and a key driver in protecting and enhancing the Group's reputation. Successful investment performance for the Group's clients is important and monitoring of performance and the associated risks will be a key requirement going forward. The Group has no tolerance for failure in AML and KYC procedures. New customers are vetted using best industry practice of identification and verification. TCF MI is made available to management to aid monitoring of this area. The Investment Performance Committee, reporting to the SEG, is responsible for monitoring investment performance. The Product Strategy Committee, reporting to the SEG, is responsible for ensuring investment products operate as expected and meet TCF requirements.

- **Business Growth**

The Group is willing to accept risk, on a conservative basis, and invest capital in pursuing new business opportunities and or reviewing the existing business model and business structure to focus on core activities in line with business strategy. Actions should increase the overall revenues of the Group and particularly grow the funds under management. In light of current market conditions any new opportunities will be assessed after appropriate due diligence to ensure that it meets the Groups strategic requirements and will be limited to areas where there is existing competence within the Group. The Board and SEG in conjunction with the Sales & Marketing Dept and the Product Strategy Committee are responsible for ensuring continuing business growth.

- **Staff retention**

The Group acknowledges that loss of key staff members could impact on revenue generation, cost control and risk mitigation. The Group has a low tolerance for accepting these related risks: however, it is recognised that, in the current market place the group operates in, there is traditionally some movement of staff. The SEG regularly reviews retention MI data. The Group use share based value schemes to aid the retention of key staff.

- **Business operations**

In order to deliver the best service, including treating customers fairly, the Group needs to constantly adapt. This may mean modifying peoples' attitudes and processes. The key areas of risk in achieving this include relationships with third party administrators, investment operations process and MI systems, and allocation of people resources. To monitor this, risk indicators include SLAs, performance targets and compliance monitoring on a risk-based approach. The Operations Committee, reporting to the SEG, is responsible for ensuring operational risks are mitigated where possible. The Broker Oversight Committee, reporting to the SEG, is responsible for ensuring the veracity of third party broker relationships.

- **Business Continuity**

There is a zero tolerance approach to accepting that the Group's services could be materially compromised as a result of a failure in the operating infrastructure. A key risk indicator is that there is a business continuity plan in place which is tested on a rolling basis. There are appropriate key IT systems in place with full back up from external suppliers where appropriate. The Operations Committee, reporting to the SEG, is responsible for delivering and monitoring the BCP and IT infrastructure for the Group.

- **Outsourcing**

The Group is willing to accept limited risk in the outsourcing key business areas including IT and core administrative functions such as the managing the client cash accounts and fund accounting for the three unit trusts within the Group. A key risk indicator is that appropriate due diligence has been undertaken with all outsourced functions, SLA are in place and reviewed periodically to determine if performance and response time is appropriate. The Operations Committee, reporting to the SEG, is responsible for monitoring the ongoing outsourcing arrangements of the Group.

- **Regulation and relationship with the Regulators**.

The Group is unwilling to accept any risks with its regulatory position including Governance, systems and controls, conduct of business, market conduct, treating customers fairly, financial resources requirements with the UK regulators. The key risk indicators are robust governance and risk management framework in place, a risk based compliance monitoring programme in place and an open and co-operative relationship with the regulators. The Compliance Dept, reporting to the Board and the SEG, is responsible for ensuring the regulatory status and ongoing monitoring plan for the Group. The SEG, through the Governance Oversight Manual, is responsible for ensuring that the Group meets its other regulatory and third party commitments.

2 Core Risks

Operational, Business, Credit and Liquidity risks have been assessed as core risks to MGR's business. A full assessment of these risks which are deemed significant is provided below.

2.1 Operational Risk

Definition of operational risk

Operational risk can be defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. For operational risk measurement purposes, this definition includes legal/compliance risk/financial crime risks, which is the risk of loss resulting from a failure to comply with laws, contractual obligations and prudent ethical standards. The definition also includes the exposure to litigation from all aspects of the firm's activities. Reputational risk will be treated as a consequential risk arising from the crystallisation of other risks, rather than be treated as an independent risk. As such, reputational risk is also covered under operational risk.

Risk assessment and management

In general, operational risk concerns are adequately managed through sound internal control, governance and an enhanced risk management framework to manage risk proactively.

A number of operational risks have been identified as the most significant sources of risk for MGR, these are shown below

- Loss of key senior members of staff and investment talent
- Failure to meet regulatory conduct of business and financial and regulatory reporting requirements (this would incorporate the insider dealing and breaches of LSE rules)
- Failure in the Risk Management process
- Fraud and misappropriation of assets
- Execution errors
- Failure in IT structures & Business Continuity Planning
- Failure to manage funds under management in accordance with mandates or company procedures

2.2 Business Risk

Definition of business risk

Business risk arises from changes to a firm's internal and external environment and includes the risk that the firm may not be able to carry out its business plan and desired strategy

Risk assessment and management

A number of business risks have been identified as the most significant sources of business risk for the Group and are shown below

- The risk of market decline on Funds under management
- Underperformance of funds and loss of mandates
- Failure of business outsourcing arrangements

2.3 Credit Risk

Definition of risk
The current or prospective risk to earnings and capital arising from an Obligor's failure to meet the terms of any contract with the institution or its failure to perform as agreed.

Risk assessment and management
MGR exposure to this risk category mainly relates to;

- Short term deposits held with high street banks
- Fees accrued or invoiced, but not received
- Failure of bank holding client money.

2.4 Liquidity Risk

Definition of risk:
The current or prospective risk to earnings and capital arises from an institution's inability to meet its liabilities when they become due.

Risk assessment and management:
The perceived risk is that there would be insufficient liquidity within the business to meet its obligations.

2.5 Other risks

Market, Interest rate, Insurance, Pension, Securitisation and Concentration risks have been assessed to be relevant but not core to the Group's business. A fuller assessment of these risks is provided below:

2.5.1 Market risk

Definition of risk
The current or prospective risk to earnings or value that arise from adverse movements in equity and commodity prices, interest and/or foreign exchange rates. This risk can arise from open positions in bonds, securities, currencies, commodities, or derivatives. This risk includes foreign exchange risk, defined as the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. This risk excludes interest rate risk in the non trading book which is covered separately below.

Risk Assessment and Management
The regulatory permissions held by the FCA-regulated entities in the Group do not permit them to take principal positions. Therefore the Group does not have market risk of significance. It manages client assets and the impact of market movements on managed assets is considered under business risk.

2.5.2 Interest Rate Risk

Definition of risk:
The potential impact of adverse movements in interest rates in the non – trading book and the impact these have on planned future cash flows.

Risk assessment and management
Short term deposits are made for varying periods and earn interest at respective short term deposit rates. Interest income does not form a significant part of the revenue and as such any significant drop in interest rates would not represent a material risk to the Group's revenues.

2.6 Non relevant risks

The following risks are considered minor / not relevant to the Group

2.6.1 Insurance Risk

Definition of risk
The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities

Risk assessment and management
The Group is not in the business of writing insurance policies and does not underwrite insurance liabilities.

2.6.2 Concentration risk

The Group does not believe that it specifically is dependent on any one investor and its' revenue streams clearly reflects this. Therefore, no additional capital is considered necessary in respect of concentration risk.

2.6.3 Residual risk

The Group does not accept any form of collateral in the normal course of its business.

2.6.4 Securitisation risk

The Group does not have securitised assets and does not intend to securitise any assets for the foreseeable future.

2.6.5 Pension obligation risk

The Group has a number of contracted out money purchase schemes but does not have a defined benefit pension scheme and as such is not exposed to the risks associated with the valuation of future pension liabilities. Therefore this is considered not to be a relevant risk.

2.7 Capital Transferability

Should the annual capital planning of the Group indicate a shortfall or should for any reason it be determined that any of the capital requirements of the subsidiaries exceed the available resources it will be immediately raised with the Board.

Each of the regulated subsidiaries ensures that all times they have adequate and eligible capital resources to meet their own regulated capital requirements. Any transfer of capital from a subsidiary will not compromise its ability to meet its respective regulatory capital requirements at all times.

2.8 Remuneration

The Group maintains written remuneration policies designed to comply with the rules and guidance relating to the FCA's Remuneration Code as it applies to BIPRU firms, AIFMs and UCITS management companies (the "Remuneration Rules"). The Group's remuneration policies applies to its employees whose professional activities have a material impact on the risk profile of the Firm and, in the case of MTM, the AIFs for which it acts as AIFM ("Remuneration Code Staff"). The Group's Remuneration Committee oversees the remuneration of Remuneration Code Staff.

The total compensation of Remuneration Code Staff is generally structured as a base salary and a possible year-end bonus. The award of bonuses for non-investment staff is subject to discretionary oversight and is influenced by a number of considerations, including, among other things, the employee's experience and performance in the role, the overall performance of the investment strategy that the employee supports (if applicable), the profitability of the Group, and competitive pay practices and industry benchmarks. The base bonus for the investment management team is dependent on the revenue generated from the funds managed by the individuals, as adjusted by the individual performance against pre-agreed benchmarks and risk metrics for the funds.

A portion of any year-end bonus awarded to Remuneration Code Staff is subject to mandatory deferral in the event that the total bonus breaches pre-determined de-minimus levels. Deferred amounts will generally be invested in the shares of the parent company of the Group. Remuneration Code Staff who voluntarily elect to leave the Group (other than in connection with retirement) will typically forfeit all or significant portions of their unvested deferred compensation and thus have an economic incentive to remain with the Group.

The Group takes into account the specific nature of its own activities (including the nature of its revenues) in conducting any ex-ante risk adjustments to year-end bonuses for staff of MAM and MTM. The Group has elected not to make ex-post risk adjustments to year-end bonuses, as permitted under the Remuneration Rules.

The Remuneration Code Staff who support the Group's investment management activities (the Group's only "business area" for purposes of the Remuneration Rules) are all "senior managers" of the FCA authorised firms within the Group. The aggregate remuneration awarded to Remuneration Code Staff for purposes of BIPRU 11.5.18R(6) and BIPRU 11.5.18R(7) in respect of the performance year ending 31 December 2016, including year-end bonus awards subject to the deferral policy described above, and share based remuneration was approximately £5,245,000.

2.9 Items omitted from the Pillar 3 Disclosures

The Group's minimum capital requirement under Pillar 1 is driven by its FOR and not the sum of its credit risk and market risk requirements. The Group has, accordingly, concluded that the detailed disclosure requirements in relation to credit risk and market risk set out in BIPRU 11.5.4R(2)-(4), BIPRU 11.5.5-11.5.13R, and BIPRU 11.5.15R-11.5.16R may be excluded from the Pillar 3 Disclosures on the grounds that they are immaterial (in accordance with BIPRU 11.3.5R).

The Group does not engage in securitization activity and the securitization disclosures in BIPRU 11.5.17R are not applicable. The Group has therefore concluded that it is permitted to exclude such disclosures from the Pillar 3 Disclosures on the grounds that they are immaterial (in accordance with BIPRU 11.3.5R).