Miton Group plc

Pillar 3 Disclosure 2018

1. Overview

1.1. Introduction

This document is prepared in satisfaction of the Pillar 3 disclosure requirements in accordance with the European Capital Requirements Directive (**'CRD'**) as laid out in Chapter 11 of BIPRU. These disclosures have been reviewed and approved by the Board of Directors of Miton Group plc (**'MGR'**).

MGR and its subsidiaries (collectively, the **'Group'**) is required to disclose certain information relating to risk management and the levels of capital adequacy.

The CRD framework consists of three pillars:

- **Pillar 1** *sets out the minimum capital requirements as calculated in accordance with the BIPRU rulebook.*
- **Pillar 2** r*equires a firm to assess the amount of internal capital it considers adequate to cover all of the risks to which it is exposed within the context of its overall risk management framework. The framework includes the Internal Capital Adequacy Assessment Process* (**'ICAAP'**) *and the Supervisory Review and Evaluation Process* (**'SREP'**)*.*
- **Pillar 3** *complements the other two pillars and improves market discipline by requiring firms to make disclosures to the market that ensure enhanced transparency around capital resources and requirements, risk exposures and risk assessment processes.*

A fundamental part of the process is the comparison of the capital resources requirement, generated from the application of the financial rules detailed in the GENPRU and BIPRU FCA handbooks (**'Pillar 1'**), against the internal cumulative assessment of the Group's capital requirements (**'Pillar 2'**).

Capital Resources (**'CR'**) are defined by the FCA and in general equate to the sum of the following:

+ share capital;
+ share premium; and
+ retained audited reserves.

The Group must maintain CR in excess of its Capital Resources Requirement (**'CRR'**) at all times.

CRR is calculated on an individual company basis, with CRR being the **higher** of the Pillar 1 or Pillar 2.

Pillar 1 being the higher of the:

- fixed overhead requirement (**'FOR'**) plus ICG weighting if appropriate (see below);
- base capital requirement; or
- the sum of credit and market risk capital requirements.

The FCA will apply an additional weighting to the Pillar 1 calculation, which is referred to as an Individual Capital Guidance (**'ICG'**). The ICG has the effect of increasing the capital requirement.

Pillar 2 being the higher of the:

- Pillar 2A: the cumulative assessment of a line-by-line analysis of risks; and
- Pillar 2B: the requirements of an adequate capital buffer *(including analysis of the costs of an orderly wind-down of the Group and scenario testing)*.

1.2. Group summary

MGR is the parent company of the Miton Group, which includes the two FCA regulated companies listed below, and is required to produce a consolidated return to assess its capital resources and capital requirements.

At 31 December 2017 the Group had two subsidiaries registered and regulated by the FCA:

- Miton Asset Management Limited ('**MAM**'): BIPRU €50k Limited Licence Firm, FRN 115241; and
- Miton Trust Managers Limited ('**MTM**'): Collective Portfolio Management Investment Firm, FRN 220241.

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, its market risk is limited to minimal foreign currency movements on certain supplier balances.

MTM acts as the Alternative Investment Fund Manager (**'AIFM'**) to three investment trusts. 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.

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 form a consolidation group for the purposes of the FCA's regulatory capital rules. MAM and MTM are consolidated for both accounting and prudential purposes. All entities within the Group benefit from common or shared management oversight. The Group consolidates its subsidiaries at a plc level in accordance with IFRS. There is no difference in the basis of consolidation for accounting and prudential purposes. Subsidiary accounts are prepared under FRS102 on a standalone basis.

In accordance with the disclosure requirements under BIPRU 11.5.3 the Group's Capital Resources have been set out in Section **1.6**.

In accordance with CRR Article 432(1) a firm may omit one or more required disclosures where the information to be provided is not regarded as material, in so far as the omission would not change or influence the assessment of economic decisions reliant upon that information. CRR Article 432(2) further provides that a firm may omit one or more required disclosures if, in disclosing that information, confidential or proprietary information or competitive position would be compromised.

1.3. Frequency of disclosure

The Group's accounting reference date is 31 December.

These Pillar 3 disclosures are based on audited figures as at 31 December 2017. The Group expects to update these disclosures at least annually and following any material change. These disclosures are published on the Group's external website (www.mitongroup.com).

1.4. Verification

MGR's Board of Directors have reviewed and approved the information in the Pillar 3 Disclosure.

The information contained in these disclosures has not been audited by the Group's external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Group or its regulated subsidiaries.

Following our assessment, the key risks to which the Group is exposed have been identified within Operational, Business, Credit, Market and Liquidity Risk categories.

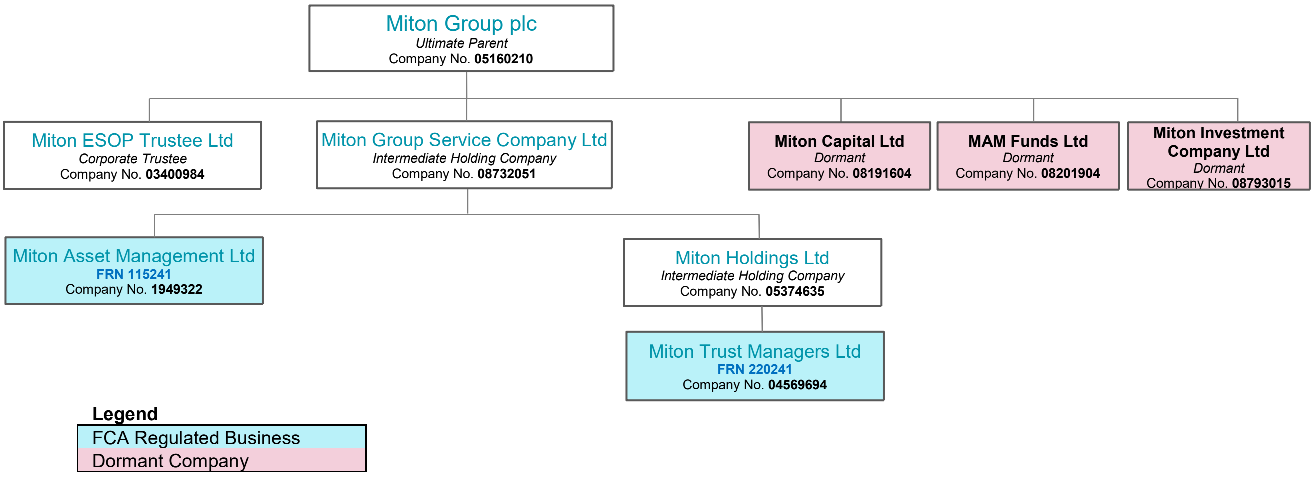
An appropriate risk management framework is in place to manage these risks. The risk identification and quantification approach adopted serves the risk management needs of the business and is considered both appropriate and proportionate to the size, nature and complexity of the Group.

1.5. Group structure and regulatory classifications

As at 30 September 2018, the Group consisted of the parent company and 9 subsidiary companies as follows:

Parent company	1
FCA regulated investment company – *BIPRU firm*	1
FCA regulated investment company – *CPMI* firm*	1
Holding company and central services provider	1
Intermediate holding company	1
Trustee companies *(employee share schemes)*	2
Non-trading and dormant companies	3
	10

1.5.1 Organisational structure chart



All companies registered in England and Wales. Registered office is 6th Floor, Paternoster House, 65 St Paul's Churchyard, London EC4M 8AB.

1.6. Group capital summary

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). **CRD III** was revised on 1 January 2014 following the publication of the fourth iteration of the Capital Requirements Directive (**'CRD IV'**).

The Group's capital resources and capital resources requirement are calculated in accordance with the FCA's rules 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, based on this method, the Group's market risk requirement was £Nil as at 31 December 2017.

For 2018 the basis for the CRR calculation is as detailed below.

1) **MAM: Pillar 1 FOR**
2) **MTM: Pillar 2A**
3) **Group: Pillar 2B**

The consolidated CR and CRR for the year ended 31 December 2017, is detailed below.

Regulatory Capital as at 31 December 2017	**£000**
Total Tier 1 capital after deductions*	15,636
Total Tier 2 capital**	-
Total Tier 3 capital**	-
Capital Resource Requirement (‘**CRR**’)	(4,180)
Surplus	**11,456**

* Tier 1 capital is comprised of share capital, share premium and externally audited reserves, less intangible assets relating to goodwill, see table below
** The Firm does not have any additional Tier 2 or Tier 3 capital resources or deductions

Calculation of own funds	**£000**
Net Assets	59,380
Less: *Dividends*	(2,137)
Less: *Intangible assets*	(41,607)
Capital Resources	**15,636**

1.7 Corporate governance

The Group’s risk management arrangements are supported by its governance and committee structure. The governance arrangements are considered appropriate and proportionate for the size, nature and complexity of the Group’s business activities. The Board has ultimate responsibility for maintaining and reviewing the systems and controls in place. These arrangements are designed to mitigate rather than eliminate risk, providing reasonable assurance against material losses or financial misstatement.

The Group is AIM listed and has chosen to report against the Quoted Companies Alliance Corporate Governance Code for small and mid-sized companies, as revised in 2018.

As at 30 September 2018 the Board composition comprises:

Jim Pettigrew	*Non-Executive Director and Chairman*
David Barron	*Executive Director and Chief Executive Officer*
Piers Harrison	*Executive Director and Chief Operating Officer*
Gervais Williams	*Executive Director and Senior Executive Director*
Jim Davies	*Non-Executive Director and Senior Independent Director*
Katrina Hart	*Non-Executive Director and Chairman of Remuneration Committee*
Alan Walton	*Non-Executive Director, Chairman of Audit and Risk Committee and Chairman of Nominations and Governance Committee*

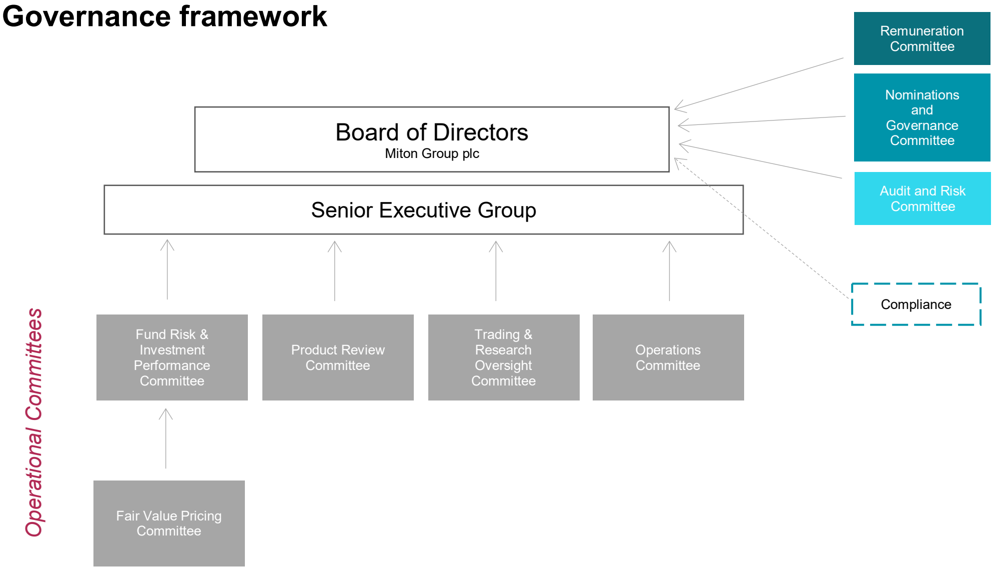
The Board has delegated day to day operational decisions to the Senior Executive Group (**‘SEG’**) which is responsible for managing the business operations and risk profile of the Group.

The members of the SEG include all Executive Directors plus the Director of Finance and the Head of Compliance. The meetings are attended by the Company Secretary and Head of Governance.

Currently the Board believes there is no requirement for an Internal Audit function, 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.

1.7.1 Governance framework



The roles and responsibilities of the Committees detailed above are presented on pages 28 to 32 of the [2017 Annual report and accounts].

1.8 Risk appetite and management

The Group's overall risk appetite is set by the Board and deemed as **low** for existing and new business areas.

The Group provides discretionary fund management to its clients (the **'funds'**). The business strategy is focused on organic growth over the medium to longer-term whilst continuing to implement operational efficiencies and cost control across the Group.

The risk appetite is reviewed annually as part of the ICAAP process and is presented to the Audit and Risk Committee, the SEG and subsequently approved by the Board of Directors.

To ensure continuous operations and profitability there is a conservative approach to risk control. In setting the Group's risk appetite, consideration has been given to the key areas of risk where management have assessed the adequacy of the controls to mitigate those risks.

This information is reviewed by the SEG and the appropriately authorised Committees on a regular basis. The key risk areas identified in terms of risk appetite are:

- **Strategic and business risk**

Strategic and business risk may arise from a change in the business, either as a result of internal decisions or external factors and events.

The Group is willing to accept risk, on a conservative basis, and invest capital wisely in the pursuit of new business opportunities. The Group reviews strategic risk in the context of its existing business model to focus on core activities in line with its strategic objectives.

In light of current market conditions any new opportunities will be assessed after appropriate due diligence to ensure that they meet strategic objectives and will be limited to areas where there is existing competence within the Group.

- **Staff retention**

As an investment management business, the Group is exposed to key personnel risk. The stability of the investment, distribution and operational expertise is key to the continued success of the Group and the ability to deliver on the strategic objectives.

The Group acknowledges that the loss of key staff members could impact revenue generation, cost control and risk mitigation. The Group endeavours to mitigate this risk as far as possible, however, it is recognised that the Group operates in a highly competitive marketplace.

The Group invests in its staff through training and qualifications and has robust remuneration mechanisms in place for all employees *(see pages 34 to 38 of the 2017 Annual report and accounts for further details)*.

Employee engagement is actively encouraged at all levels, both through regular employee briefings and by direct access to managers and the Directors. Equity share incentives are provided to retain and incentivise senior employees and Directors.

The Group seeks to be an employer of choice through a value-driven culture. It is recognised that a strong culture is more than just defining a vision. The competencies that stem from the Group's values underpin how the strategy and vision will be delivered. These are woven into policy and practice throughout the employment life cycle, including recruitment, performance management and reward.

2. Core risks

Operational, Business, Credit, Market and Liquidity risks have been assessed as core risks to the Group's business. A full assessment of these risks is provided below.

2.1 Operational risk

Definition of operational risk

Operational risk is the risk of loss arising from a failure in internal systems, procedures or in outsourced functions. The fundamental elements of the operational structure are people, information technology including cyber risk, and outsourced services.

For operational risk measurement purposes, this definition includes legal/compliance/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 Group'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

Operational risk is mitigated through robust internal controls, governance arrangements and an enhanced risk management framework.

A number of operational risks have been identified as the most significant sources of risk for the Group, these are detailed below:

- Loss of key members of staff
- Regulatory breach
- Failure in IT systems and business recovery plan
- Failure in the risk management process
- Fraud and misappropriation of assets
- Fund operations/supplier failure
- Fund risk management failure
- Fund management/investment failure

Comprehensive business continuity planning is in place to ensure the ongoing operation of key business functions in the event of normal systems being interrupted. A Business Recovery Plan (**'BRP'**) is continually tested and updated. There is a robust IT infrastructure with back-up systems in place and the Group maintains a fully operational disaster recovery office in Reading.

Cyber-crime is mitigated by key controls including the continued education of all staff. The Group deploys and maintains numerous security measures and believes in a strength-in-depth approach particularly when considering external threats. The Chief Operating Officer (**'COO'**) and the IT Manager are responsible for maintaining and delivering the BRP and the IT infrastructure for the Group.

The Group has a limited risk appetite in respect of the outsourcing of key business areas including IT support and core administrative functions such as fund accounting for the three unit trusts where the Group is the AIFM.

The Group is not the Authorised Corporate Director (**'ACD'**) or Unit Trust Manager (**'UTM'**) for the open-ended funds. It fulfils the functions of investment manager, distributor and sponsor to these funds.

Appropriate due diligence has been undertaken with all outsourced functions, SLAs are in place and regularly reviewed to determine if performance and response times are appropriate. The Operations Committee, reporting to the SEG, is responsible for the ongoing monitoring of service providers to the Group.

The Group's risk appetite is low for regulatory risk including governance, systems and controls, conduct of business, market conduct, TCF and financial resources requirements with the UK regulators.

The Group operates a risk-based compliance monitoring programme. The compliance department, reporting to the Board and the SEG, is responsible for ensuring the regulatory status and delivering against the agreed monitoring plan for the Group. The SEG is responsible for ensuring that the Group meets its regulatory and third-party commitments.

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 detailed below:

- Market risk on Assets under Management (**'AuM'**)
- Terrorist risk
- Sustained investment underperformance
- Corporate governance

The Group's funds are invested in a wide range of asset classes under different investment mandates including multi-asset, equity and portfolios of collective investment schemes. Market risk is therefore diversified by managing funds investing in a wide range of asset classes. To the extent that asset classes behave differently in times of higher volatility, the Group's AuM and revenues are likely to be less affected than would be the case in a business more focused on a single asset class.

The Board and SEG review investment performance on a regular basis, along with input from the Fund Risk & Investment Performance Committee and the Product Review Committee to assess the Group's mix of products. Regular interaction is also maintained with supporting stakeholders such that they understand the performance of the fund(s) in which they are invested. Senior employees are invited to attend all board meetings of each Investment Trust to which the Group is the AIFM.

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 an institution or its failure to perform as agreed.

Risk assessment and management

Group identified exposure to this risk category is detailed below:

- Cash balances placed with banking institutions
- Counterparty exposure in the Group's receivables balances from fund management clients

The creditworthiness of all relevant counterparties is monitored closely. A diversification policy is in place in order to allocate significant cash deposits between at least three suitable institutions, cash balances across the Group are analysed on a weekly basis by the Director of Finance and the COO. All funds managed by the Group are monitored on a daily basis and have sufficient scale to pose limited credit default risk.

2.4 Market risk

Definition of risk

The current or prospective risk to earnings or value that arises 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.

Market risk arises in relation to the investments held by the funds managed by the Group and the revenue generated from the management charge on the value of those assets, this risk is considered under business risk (see Section **2.2**).

2.5 Liquidity risk

Definition of risk:
Liquidity risk is the risk that a firm will not be able to meet its financial obligations as they fall due or can only do so at a significantly increased cost.

Risk assessment and management:
The Group's objective in managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities as they fall due, under both normal and adverse conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group's cash balances and aged creditors are monitored regularly by the Director of Finance and the COO. Working capital levels are assessed monthly.

The Group's policy is to maintain unencumbered cash balances in excess of its regulatory capital requirements, which are based on annual expenditure requirements identified through a rigorous forecasting process.

2.6 Other risks

Concentration, Interest Rate, Insurance, Residual, Securitisation and Pension obligation risks have been assessed to be either not core or not relevant to the Group's business activities. A fuller assessment of these risks is provided below:

Risk type	Assessment and management
Concentration risk	The Group endeavours to diversify its product range and client base in order to lessen the risk of increased volatility in AuM and earnings resulting from investment underperformance or the departure of key clients. The Group does not believe that it is specifically dependent on any one investor and therefore no additional capital is considered necessary in respect of concentration risk. Key man risk associated with the loss of a fund management team and resulting redemptions is considered under operational risk (see Section **2.1**).
Interest rate risk	Interest income does not form a significant part of the Group's revenues and as such any significant drop in interest rates would not represent a material risk to the Group.
Insurance risk	The Group is not in the business of writing insurance policies and does not underwrite insurance liabilities.
Residual risk	The Group does not accept any form of collateral in the normal course of its business.
Securitisation risk	The Group does not have securitised assets and does not intend to securitise any assets for the foreseeable future.
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.

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 of Directors.

Each of the regulated subsidiaries ensures that all times they have adequate and eligible capital resources to meet their own regulated capital requirements.

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'**).

2.8.1 Governance

The Group's Remuneration Committee reviews remuneration matters and policy for Executive Directors and senior managers as well as approving the overall principles across the wider Group. The Committee endeavours to choose remuneration structures appropriate for the Group's strategy and business requirements. The Committee seeks to provide a competitive package of incentives and rewards.

Remuneration includes four main elements:

- Base salary
- Discretionary and performance related
- Participation in equity incentive plans
- Pension and other benefits

2.8.2 Code staff

In accordance with the BIPRU Remuneration Code, the Group is required to identify those categories of staff whose professional activities have a material impact on the risk profile of the Group and, in the case of MTM, the AIFs for which it acts as AIFM **('Code Staff'**).

The Group has determined its Code Staff to be senior individuals whose managerial responsibilities or professional activities could influence, and have a material impact on, the overall risk profile of each regulated entity and on the funds managed by the Group.

The identified Code Staff are members of the Board, SEG, fund managers, Head of Compliance, Head of Sales and the Head of Human Resources.

23 staff met the identification criteria for the performance year ending 31 December 2017. The Code Staff list is kept under annual review by the Remuneration Committee.

2.8.3 Link between pay and performance

Any discretionary and performance related remuneration is designed to reflect the performance of the Group as a whole and the performance assessment of the underlying individual. The individual's success in meeting, or exceeding KPIs and specific targets is focused not only on financial metrics but a broader range of compliance, behavioural, regulatory and risk management measures.

The total compensation of Code Staff is generally structured as fixed base salary and an annual variable award. 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 profitability of the Group, and competitive pay practices and industry benchmarks. Performance related awards for the fund management team is dependent on the net revenues generated from the funds managed by the individuals, adjusted for performance against pre-agreed benchmarks and risk metrics.

There are deferral arrangements in place for Code Staff when the total bonus exceeds a pre-determined de-minimus level. Deferred amounts will generally be invested into funds managed by the Group and released to the individual over a defined vesting period.

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.

2.8.4 Quantitative remuneration information

The aggregate remuneration awarded to 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 2017, including discretionary/performance related awards subject to the deferral policy described above and share based remuneration is detailed below.

Senior Management[1]	Other Code Staff
£3.464m	£6.862m

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 as detailed below.

2.9.1 Summary of Pillar 1 calculations (£000)

2018	*A*	*B*			*C*	Highest of A, B or C
	'FOR'	**BASE**	*credit*	*market*	∑	**Pillar 1**
MTM	206	125	136	-	136	**206**
MAM	3,280	50	336	-	336	**3,280**
Others	-	-	315	-	315	**315**

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 securitisation 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).

[1] Comprised of all Executive and Non-Executive Directors of Miton Group plc