Pillar 3 Disclosures as at 31 December 2019

1. Capital resources

1.1 Introduction

Eurizon SLJ Capital Limited (the "Company") is incorporated as a limited company in England and Wales and is authorised and regulated by the Financial Conduct Authority (the "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 the Company to assess the adequacy of its capital resources given its risks.

The prudential framework for investment management firms consists of the following three pillars:

- Pillar 1 sets out the minimum capital requirements for the Company covering credit, market and operational risk;

- Pillar 2 requires the Company to undertake an overall assessment of its capital adequacy, taking into account the risks to which the Company is exposed and whether additional capital should be held to cover risks not adequately covered by the Pillar 1 requirements; and

- Pillar 3 compliments both Pillars 1 and 2 by requiring the Company to disclose information on their capital resources and requirements, governance and risk management framework. It also requires disclosure of the Company's remuneration policy for certain categories of staff.

This document is designed to meet the Company's Pillar 3 obligations. The Company is permitted to omit disclosures if it believes the information is either immaterial or if the information could be regarded as proprietary or confidential.

1.2 Basis of disclosures

The Company is a London-based discretionary investment manager to professional clients and other companies within the Eurizon Capital group, the asset management arm of Intesa Sanpaolo.

As a UCITS Investment firm, the Company has a requirement to hold capital of not less than the applicable "base own funds requirement", which is €125,000.

Since December 2019- when the Company received its UCITS Management Company permission from the FCA, the Company must protect the money it holds and/or controls on behalf of customers. The Company is not permitted to lend this money or use it to finance its own business. The Company does not trade on its own account or take positions as principal.

The Pillar 3 disclosures are based on the Group's financial position at 31 December 2019. The information included in this document is based on the Company's audited accounts.

1.3 Risk management framework

The Board of Directors of the Company (the "Board") has previously determined the business strategy, risk appetite and the design and implementation of a risk management framework- which is appropriate for the size and nature of its business. Under its business model, any client money and / or customers' assets received by the Company during the conduct of designated investment business will be retained by large independent custodians and will be appropriately segregated.

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. This risk is managed by senior management, who have responsibility for implementing appropriate controls for the business. The Compliance & Risk Officer function reviews the operation of these controls.

<u>Market risk</u>

The Company does not hold positions in market-related assets. The Company'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. The Company 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 Company may be unable to meet its payment obligations as they fall due. The Company's liquidity policy is to maintain sufficient liquid resources to cover any cash flow imbalances in fees received or receivable. The Compliance & Risk Officer function continually monitors income and spending levels to ensure there is always enough liquidity.

Credit risk

Credit risk refers to the likelihood that customers fail to meet their obligations as they fall due. The Company has limited credit risk from the non-payment of investment management or macroeconomic research fees receivable. This is because most clients have their fees deducted from their underlying portfolios under management or pay their annual research fees in advance. Whilst the Company also has a credit exposure to its banks, the risk of default of the Company's chosen banks is considered remote.

Client risk

A significant loss of large clients would result in reduced fund management revenue.

The Company 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.

The proposed launch of two UCITS sub-funds under the Management of the Company in H2 2020 is also expected to mitigate this risk further.

Investment performance risk

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

Underperformance could result in reduced revenue and redemptions by clients and could also, adversely affect the growth of the business. The Company 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 the Company's business significantly. Regulatory developments are monitored by the Compliance & Risk Officer function and the implications of changes are considered and dealt with.

The greatest area of regulatory risk that the Company is currently exposed to relates to Brexit and the threat that the agreed Memorandums of Understanding ("MOUs") previously exchanged between the FCA and various European Competent Authorities, would not be valid in the event that no deal is agreed prior to 31st December 2020. This could prevent the Company from being able to manage the AUM of EU-based group companies and their funds under management. This risk is considered remote as the MOUs were executed on the basis of a 'No Deal' Brexit and should be legally binding on all sides.

1.4 Regulatory capital

The Company's capital requirements are the greater of:

its base capital requirement of €125,000; or
the funds under management requirement, which is assessed to be £539,128; or
its 'Fixed Overhead Requirement' (FOR), which is assessed to be £808,381.

As at 31 December 2019, ESLJ held audited Common Equity Tier 1 Capital of £2,324,809.

The internal capital to be held against the Company's Pillar 1 Own Funds Requirement is £808,381, 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, the Company 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 the Company 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

The Company is classified as a proportionality level 3 firm in accordance with the FCA's Remuneration Code' (the "Code"). Given the size and nature of its operations, the Company has not established a separate Remuneration Committee. Instead the Company's Board has responsibility for the overall remuneration philosophy and for determining the remuneration of staff. Apart from a salary, staff 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.

The Company has identified its Code staff for the financial year to 31 December 2019, comprising those who are deemed Risk Takers. The estimated total remuneration in respect of the year to 31 December 2019 for Code staff was £1.36 million.