

## **Pillar 3 Disclosures as at 31 December 2020**

### **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 complements 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 Eurizon Capital SGR-which is the asset management arm of Intesa Sanpaolo S.p.A. (the “Ultimate Parent Company”).

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.

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 2020. 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 to are set out below:

#### Operational risk

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 of the Company reviews the operation of these controls.

#### Market risk

The Company does not hold as principal 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 the 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 the funds under the Company's management.

#### Liquidity risk

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 requires the Company to maintain sufficient liquid resources to cover any cash flow imbalances in fees received or receivable. The Compliance & Risk Officer function performs regular stress testing to monitor income and spending levels to ensure there is always enough liquidity to meet obligations.

#### 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 has a credit exposure at its banks, the risk of default of the Company's chosen banks is considered remote and mitigated against through the performance of an annual risk and due diligence assessment of the banks by the Compliance & Risk Officer function.

### Client risk

A significant loss of clients would result in reduced revenue from AUM.

The Company has mitigated this risk by diversifying its client base, obtaining long-term contracts where appropriate and possible, managing assets of the companies within the group of the Ultimate Parent Company and by concentrating on delivering investment performance and client service.

### Investment performance risk

Investment performance risk is the risk that funds or accounts under management underperform versus peers and / or the applicable benchmark.

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 (including Brexit and a potential equivalence decision for the UK by the European Union) are monitored by the Compliance & Risk Officer function and the implications of changes are considered and dealt with.

The risk to the Company of being unable to manage funds on behalf of entities within the Ultimate Parent Company in the event of a no equivalence decision, is considered remote as the previously executed Memorandums of Understanding between the parties were signed on the basis of a 'No Deal' Brexit and should be legally binding.

## **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 £663,978; or  
its 'Fixed Overhead Requirement' (FOR), which is assessed to be £881,987.

As at 31 December 2020, ESLJ held audited Common Equity Tier 1 Capital of £3,651,056

The internal capital to be held against the Company's Pillar 1 Own Funds Requirement is £881,987, 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 2020, comprising those who are deemed Risk Takers. The estimated total remuneration in respect of the year to 31 December 2020 for Code staff was £1.39 million.

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