BrightSphere International Ltd (515302) December 2018

Pillar 3 Disclosure and Policy/ Stewardship Code

Introduction

Regulatory Context

The Pillar 3 disclosure of BrightSphere International Ltd ("the firm" or "BSI") is set out below as required by the FCA's "Prudential Sourcebook for Banks, Building Societies and Investment Firms" (BIPRU) specifically BIPRU 11.3.3 R. This follows the introduction of the Capital Requirements Directive ("CRD") which represents the European Union's application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline.

Frequency

The Firm will be making Pillar 3 disclosures annually. The disclosures will be as at the Accounting Reference Date ("ARD").

Media and Location

The disclosure will be published on our website.

Verification

The information contained in this document has not been audited by the Firm'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.

Materiality

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

Confidentiality

The Firm regards information as proprietary if sharing the information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investments therein less valuable. Further, the Frim must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

Summary

The CRD requirements have three pillars. Pillar 1 deals with minimum capital requirements: Pillar 2 deals with Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by a firm and the Supervisory Review and Evaluation Process through which the firm and regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces and: Pillar 3 which deals with public disclosure of the risk management policies, remuneration policies, capital resources and capital requirements. The regulatory aim of the disclosure is to improve market discipline.

The Firm is an Investment Management Firm. The Firm's greatest risks have been identified as business and operational risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes to manage those risks: the structure and organisation of relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; and the polices for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of the hedges and mitigants.

The Firm has assessed business and operation risks in its ICAAP and set out appropriate actions to manage them.

A number of key operations are outsourced by the Firm to its parent company, BrightSphere Inc. The Firm has an operational risk framework (described below) in place to mitigate operational risk. The Firm's main exposure to credit risk is low. The Firm holds all cash and performance fee balances with banks assigned high credit ratings.

Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to any cash amounts held by the Firm in a foreign currency. Any foreign currency will be converted to GBP on a regular basis.

Background to the Firm

<u>Background</u>

BSI's principal activity is to extend the marketing footprint and diversify business revenues of BrightSphere Inc. and its Affiliates to markets outside of the United States.

The Firm is incorporated in the UK and is authorised and regulated by the FCA as an Investment Management Firm. The Firm's activities give it the BIPRU categorisation of a "Limited Licence" and a "BIPRU E50K" firm.

The following entities are covered by the ICAAP:

- BSI

The Firm is a solo regulated entity with a Non-EEA parent.

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under (GENPRU 2 Annex 4).

BIPRU 11.5.1

Disclosure: Risk Management Objectives and Policies

Risk Management Objective

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

Governance Framework

The Board is a Governing Body of the Firm and has the daily management and oversight responsibility. It aims to meet quarterly and is composed of the Firm's Directors and Head of Compliance.

The Board is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Governing Body decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Senior Management is accountable to the Board for designing, implementing and monitoring the process of risk management and implementing it into the day to day business activities of the Firm.

Regulatory Capital and Risk Management

The key risks to the business are generally categorised as investment performance, adverse market conditions and loss of key staff. These risks are managed through diversity of the product and client range, and through ensuring that remuneration packages and culture remain competitive and attractive. Risks to the business are reviewed and monitored on an ongoing basis by the Head of Compliance and are reviewed by the Board on a quarterly basis.

The Firm has a conservative approach to risk. The Firm's Enterprise Risk Management Framework (ERM) is based on three lines of defence:

- Risk management and control
- Risk oversight
- Independent assurance

The entity-wide approach is used to manage potential risks that may prevent the company from achieving its objectives. We continuously identify and rate internal and external risks and propose risk –mitigation controls. Each risk is rated according to its impact and probability, at both an inherent level (before any controls are considered) and at a residual level (after the mitigating effects of controls). The primary risk are reported to the Board each quarter. The EGRC systems, an online application, is used to record risks and risk assessments. The Firm has undertaken high level scenario analysis and stress tests on the most significant risk identified. This informs the Firm how risk are likely to behave and what, if any, impact there is likely to be to its balance sheet.

Compliance

Compliance is primarily responsible for supporting the business to ensure that the Firm's activities are conducted in accordance with all regulatory and client requirements. This is partly achieved through the existence of a risk based monitoring programme. This programme which is updated annually, sets out the monitoring reviews to be undertaken and ensures that Compliance resources are focused on the areas perceived to be of greatest risk. This process involved looking at the likelihood of incidents occurring in each area of the business and the impact the incident would have form a financial, regulatory and reputational view. Controls and procedures used to mitigate risk are taken into consideration when calculating which areas should be focused on each quarter. Compliance issues are reported to the Board and relevant senior management. Compliance monitors recommendations to ensure they are followed up and implemented as appropriate.

Compliance maintains specific policies and procedures in relation to employee conduct, which are contained within either the Compliance Manual or specific policy documents. All employees are required to sign a statement that they have received and read the Compliance manual on joining the Firm and annually each January.

The Firm has an Internal Capital Adequacy Assessment Process (ICAAP) as required by the FCA for establishing the amount of regulatory capital to be held by the company to withstand the materialisation of a series of risks even resulting in the winding up of the company. The ICAAP draws from the Firm's enterprise risk management framework and gives consideration to the current and forecast projected financial and capital positions. The ICAAP is reviewed by the Board at least annually.

The Firm has observed the FCA's regulatory requirements throughout the financial period. The Firm has a strong capital base at the period end of £6,035,000 with net assets largely in the form of cash or amounts receivable from the parent company. Based on the Company' ICAAP, the company has a strong solvency ratio which is expected to be maintained for the foreseeable future.

BIPRU 11.5.4

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 and the Overall Pillar 2 Rule

BIPRU 3

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Firm has adopted the standardised approach BIPRU 3.4 and the Simplified method of calculating risk weights BIPRU 3.5.

Credit Risk Calculation				
Credit Risk Capital Requirement	**Rule**	**Capital**		
Credit risk capital component	BIPRU 3.2	£356,000		
Counterparty risk capital component	BIPRU 13 & 14	£0		
Concentration risk capital component	BIPRU 10	£0		
TOTAL		**£356,000**		
		Exposure	Risk weight	Risk Weighted exposure amount
National Government Bodies	BIPRU 3.4.2	£101,000	0%	£0
Banks etc long-term	BIPRU 3.4 .36	£0	50%	£0
Banks etc short-term	BIPRU 3.4.39	£3,199,000	20%	£640,000
Exposure to Corporates/Debtors	BIPRU 3.4.52	£3,793,000	100%	£3,793,000
Past due item	BIPRU 3.4.96	£0	100%	£0
Fixed assets	BIPRU 3.4.127	£15,000	100%	£15,000
Accrued investment management fees	BIPRU 3.4.128	£0	100%	£0
Total		£7,108,000		£4,448,000
Credit Risk Capital Component	8% of weighted risk exposure			£356,000

BIPRU 4

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

BIPRU 6

The Firm, being a Limited Licence Firm is not subject to the Pillar 1 Operational Risk Requirement and, therefore, this is not applicable.

BIPRU 7

The Firm has Non-Trading Book potential only (BIPRU 7.4, 7.5)

BIPRU 10

The Firm closely monitors and assesses its Non-Trading Book limits in line with (BIPRU 10.5.2 R to BIPRU 10.5.10 R). when the Firm has a single exposure exceeding 25% of its capital resources, it is recorded in the Breaches Register and monitored until such time as is rectified upon receipt of income. Also, the Firm monitors its position to ensure the sum of its exposures of more than 10% do not exceed 800% of its Regulatory Capital Resources.

Overall Pillar 2 Rule

The Firm has adopted the "Structured" approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper 25 January 2006.

The ICAAP assessment is reviewed by the Board and amended where necessary, or an annual basis or when a material change to the business occurs. The Pillar 2 requirement is calculated to the £951k based on expected net costs on winding up the business.

BIPRU 11.5.8 Disclosure: Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the risk of non-collection of deposits and parent company reimbursements. It holds all cash and performance fee balances with Banks assigned high credit ratings. Consequently risk of past due to impaired exposures is minimal. A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below is carrying amount.

BIPRU 11.5.12 – Disclosure: Market Risk

Market Risk Calculation				
	Rule	**Position**	**Risk Weight**	**PRR**
Interest rate position risk requirement	BIPRU 7.2	£0	8%	£0
Equity positional risk requirement	BIPRU 7.3	£0	8%	£0
Commodity positional risk requirement	BIPRU 7.4	£0	8%	£0
Foreign currency positional risk requirement	BIPRU 7.5	£93,000	8%	£14,000
Option positional risk requirement	BIPRU 7.6	£0	8%	£0
Collective Investment undertaking positional risk requirement	BIPRU 7.7	£0	32%	£0
TOTAL		**£93,000**		**£13,963**

BIPRU 11.5.2 – Disclosure: Scope of application of directive requirement

The Firm is subject to the disclosures under the Banking Consolidation Directive, however, it is not a member of a UK consolidation Group and consequently does not report on a consolidated basis for accounting and prudential purposes.

BIPRU 11.5.3 – Disclosure: Capital Resources

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under (GENPRU 2 Annex 4). Tier 1 Capital comprises of LLP Members/Partners Capital/Shares/Premium Accounts/Subordinated Debt/Innovative Tier One Capital and Audited Reserves/Losses.

Tier 1 Capital	£6,450,000
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£0
Deductions	£0
Total Capital	£6,450,000

BIPRU 11.5.5

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R(3)

BIPRU 11.5.6

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R(3)

BIPRU 11.5.7

This disclosure is not required as the Firm does not have a Trading Book

BIPRU 11.5.9

This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under BIPRU 11.5.8R (9)

BIPRU 11.5.10 – Disclosure: Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach.

This disclosure is not required as the Firm uses the Simplified method of calculating risk Weights (BIPRU 3.5)

BIPRU 11.5.11- Disclosure: Firms calculating Risk Weighted Exposure amounts using the IRB Approach

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by BIPRU 11.5.4R (3)

BIPRU 11.5.13 – Disclosure: Use of VaR model for calculation of Market Risk Capital Requirement

This disclosure is not required as the Frim does not use a VaR model for calculation of Market Risk Capital Requirement.

BIPRU 11.5.14 – Disclosure: Operational Risk

The Firm's Fixed Overhead Requirement (FOR) is disclosed as a proxy for the Pillar 1 Operational Risk Capital Calculation. The Firm's Pillar 1 Capital Resources Requirement is the FOR which is higher of FOR and the sum of Market Risk and Credit Risk Requirement.

BIPRU 11.5.15- Disclosure: Non-Trading Book Exposures in Equities

This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities.

BIPRU 11.5.16 – Disclosure – Exposures to Interest Rate Risk in the Non Trading Book

Although the Firm has substantial balances on its Balance Sheet, there is currently no significant exposure to Interest Rate Fluctuations.

BIPRU 11.5.17 – Disclosure – Securitisation

This disclosure is not required as the Firm does not Securitise its assets.

BIPRU 11.5.17 Disclosures: Remuneration

Stakeholders benefit from greater clarity regarding firms' remuneration practices, and in particular how these practices support effective risk management.

The Remuneration Code seeks to do this in a number of ways, including but not limited to, the requirements that firms:

- Have remuneration policies which do not encourage excessive risk taking;
- Ensure that where remuneration is performance related, a significant part of the performance assessment process includes consideration of non-financial performance metrics, including adherence to effective risk management and compliance procedures and practices. Where Risk and Compliance have concerns about the behaviour of particular individuals or the riskiness of the business being undertaken, these functions will provide input into the performance assessment process before the Remuneration Committee sets individual remunerations awards;
- Do not pay guaranteed bonuses unless they are exceptional, occur in the context of hiring new staff, and are limited to the first year of service; and
- Ensure that employees do not use personal investment strategies to undermine the risk alignment effects embedded in their remuneration arrangements.

BSI is regarded as a 'proportionality tier three firm'. Its remuneration disclosure (below) is in accordance with the FCA's guidance for tier three firms.

Decision making process used for determining the Remuneration Policy

A “two over one” approval process is required for all remuneration decisions, meaning that the manager’s manager of an employee needs to approve any action. On an annual basis, the performance and remunerations is reviewed by the Management team of the firm.

- Variable pay is intended to incentivise particular behaviours and desired results, objectives, values, risk management practices, long-term entity-wide interests and long-term performance within the BU’s risk profile.
- Remuneration should not encourage risk that exceeds the company’s risk tolerance level.

Link between pay and performance

The Firm’s executive team overseas all aspects of remuneration. The Management team considers the following aspects when making remunerations decisions:

- Remuneration must support the business results and Strategic Priorities.
- Incentives should be designed so that the interests of Senior Roles are aligned with shareholders.
- Incentives should be performance related and effectively linked to success in delivering the chosen strategy.
- Incentive pay requires that business plans or targets are robust and realistic.
- All pay must be compliant with local legislation.
- Aggregate quantitative information on remuneration

BrightSphere International’s Board considers that there is only one business area, which is investment management.

Stewardship Code

Under COBS 2.2 of the FCA Handbook, the Firm is required to make a public disclosure in relation to the nature of our commitment to the UK Stewardship Code (the 'Code'), which was published by the Financial Reporting Council ('FRC') in July 2010, amended September 2012 (effective October 2012).

The Code aims to enhance the quality of engagement between institutional investors and listed companies in the UK to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. It sets out good practice on engagement with investee companies and is to be applied by firms on a "comply or explain" basis. The FRC recognises that not all parts of the Code will be relevant to all institutional investors and that smaller institutions may judge some of the principles and guidance to be disproportionate. It is of course legitimate for some asset managers not to engage with companies, depending on their investment strategy, and in such cases firms are required to explain why it is not appropriate to comply with a particular principle.

The seven principles of the Code are that institutional investors should:

- Publicly disclose their policy on how they will discharge their stewardship responsibilities;
- Have and publicly disclose a robust policy on managing conflicts of interest in relation to stewardship;
- Monitor their investee companies;
- Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value;

- Be willing to act collectively with other investors where appropriate;
- Have a clear policy on voting and disclosure of voting activity; and
- Report periodically on their stewardship and voting activities and obtain an audit opinion on engagement and voting processes.

While BSI supports the objectives of the Code, it does not currently comply with the Code. This is because BSI does not currently manage investments.

Should the Firm's business model changes in such a manner that the provisions of the Code become relevant, the Firm will amend this disclosure accordingly.