

# Natixis Investment Managers UK Limited (formerly NGAM UK Limited)

## Pillar 3 Disclosure and Policy as at 31 December 2018

### Introduction

#### Regulatory Context

The Pillar 3 disclosure of Natixis Investment Managers UK Limited (“Natixis IM UK” or “the Firm”) 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 the Firm’s website or, alternatively, a suitable hosting website as determined by the Board.

#### 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 that 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 Firm 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 Natixis IM UK 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 risk management policies, capital resources and capital requirements. The regulatory aim of the disclosure is to improve market discipline.

The Firm is a BIPRU Limited Licence Investment Firm. It acts solely as an Agent. The Firm seeks to mitigate risk by implementing sound systems and controls and corporate governance arrangements.

The Firm has grouped the risk categories in the overall Pillar 2 rule (GENPRU 1.2.30R) into five groups that are relevant to its type of firm i.e. Credit, Market, Operational, Business and Liquidity. The greatest risks are considered to be Business Risks (including reputation) and Operational Risk.

For Business Risk, the Firm has identified several scenarios which may have a detrimental impact on the business and subjected them to analysis and a stress test. The results inform the Firm on its capital planning forecasts and proposed management actions to ensure that the Firm holds, at all times, adequate Regulatory Capital. The existing financial planning process has been integrated into the ICAAP to develop forward looking financial forecasts.

For Operational Risk, the Firm has assessed if Pillar 2 capital is required taking into account its mitigation. The business model of the Firm is to either introduce clients as agent to third party Investment Managers or to engage with clients as an Investment Manager and to then sub-contract that Investment Management to professional affiliated investment managers. In addition the Firm provides investment advice to an affiliated company in relation to separate fund of fund products. Consequently, as highlighted in the Firm's ICAAP, the Firm is exposed to relatively few (but important) Operational Risks.

## Background to the Firm

### Background

The Firm is incorporated in the UK and, following the recent changes in the UK regulatory structure, is authorised and regulated by the Financial Conduct Authority as an Investment Management Firm. The Firm's activities give it the BIPRU categorisation of a "Limited Licence" and a "BIPRU €50K" firm. In addition, the Firm has received notification that the FCA has classified it as a C4 conduct classification firm and P3 prudential classification firm.

The Firm is the only entity covered by the ICAAP. The Firm is a solo regulated entity and does not form part of a UK Consolidation Group. It does form part of a French Consolidation Group.

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 the Governing Body of the Firm and has the daily management and oversight responsibility. It meets periodically during the year and is composed of:

- Chris Jackson
- Matt Shafer
- Terry F. Mellish
- Jerome Urvoy

The Board of the Firm is ultimately responsible for the total process of risk management. The Board, in liaison with the executive directors and senior management, sets the risk strategy policies.

The Board decides the Firm's appetite or tolerance for risk – those risks it will accept and those it will not take in the pursuit of its goals and objectives. In addition, the Board ensures that the Firm has implemented an ongoing process to identify risk, to measure its potential impact against a broad set of assumptions. 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.

### **Risk Framework**

Risk within the Firm is managed by use of the following:

- The Board of the Firm is responsible for the total process of risk management and the Board, in liaison with senior management, sets the risk strategy policies;
- The Firm has a conservative approach to risk;
- The Firm has identified its risks and recorded them in its ICAAP; separately an Operational Risk Assessment (ORA) is conducted annually. The results of both the Firm's ICAAP and the ORA are presented to the Board;
- The Firm has undertaken scenario Analysis and Stress Tests on the most significant risks identified. This informs the Firm how risks are likely to behave and what, if any, impact there is likely to be to its balance sheet;
- The Firm has in place an internal Global Control Plan to test the effectiveness of its key processes and procedures and its ability to comply with relevant regulatory requirements and recommended corrective action;
- Senior management is accountable for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.
- Senior management, supported by various committees (including the Investment Risk Oversight Committee, the PRCG Investment Committee, the International Product Committee, the International Security Oversight Committee, the Global IT Committee, the Outsourcing Oversight Committee) and other processes, is also responsible for communicating the Firm's approach and commitment to establishing and maintaining an effective risk management framework and approach;
- Senior management is also responsible for ensuring that employees are adequately equipped with the right tools and knowledge to enable them to fulfil their obligations to the risk management process;
- The network's Risk Management Function whose members include some employees of the Firm services the Firm in carrying out various risk management mechanisms whether specifically designed for the Firm or seeking to achieve a standard approach across the network.
- The Firm is subject to – and is one of the entities covered by – the Joint Audit Committee of Natixis Investment Managers International (“Natixis IM Int”) (known as the “Audit Committee”). The Firm is one of several business development units ('BDUs') located outside the USA, which collectively form Natixis IM Int. The Audit Committee exercises broad oversight of the Firm for the following areas:
  - Financial reporting
  - Compliance
  - Internal control
  - Operational risk management
  - Risks associated with core business.

- The Audit Committee meets twice a year along with special meetings which may be called when the need arises. The Audit Committee meets with external auditors at least annually.  
In addition a UK Audit Committee exists with a broadly similar remit to the Joint Audit Committee but focused on the activities of the Firm. This committee meets annually.

**BIPRU 11.5.4**

**Disclosure:** Compliance with BIPRU 3, BIPRU 4, BIPRU 7 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](#)).

<b>Credit Risk Capital Requirement</b>	<b>Rule</b>	<b>Capital Component</b>		
Credit risk capital component	BIPRU 3.2	£1,307,541		
Counterparty risk capital component	BIPRU 13 & 14	£0		
Concentration risk capital component	BIPRU 7	£0		
<b>Total</b>		<b>£1,307,541</b>		

  

	<b>Rule</b>	<b>Exposure</b>	<b>Risk Weight</b>	<b>Risk weighted exposure amount</b>
UK Government Bodies	BIPRU 3.4.2	£0	0%	£0
National currency	BIPRU 3.4.2	£10,253,190	0%	£0
Banks etc long-term	BIPRU 3.4.36	£0	50%	£0
Banks etc short-term	BIPRU 3.4.39	£0	20%	£0
Exposure to Corporates/Debtors	BIPRU 3.4.52	£2,172,092	75%	£1,629,069
Past due item	BIPRU 3.4.96	£0	100%	£0
Fixed assets	BIPRU 3.4.127	£2,251,379	100%	£2,251,379
Pre-Payments	BIPRU 3.4.128	£1,152,917	100%	£1,152,917
Accrued Investment management fees	BIPRU 3.4.128	£11,310,902	100%	£11,310,902
<b>Total</b>		<b>£27,140,480</b>		<b>£16,344,267</b>

  

<b>Credit Risk Capital Component</b>	8% of risk weighted exposure	<b>£1,307,541</b>
--------------------------------------	------------------------------	-------------------

**BIPRU 4**

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

**BIPRU 7**

As a Limited Licence BIPRU Investment Firm, the Firm does not have a Trading Book. The only potential exposures are Non-Trading Book Exposures, i.e. to Foreign Currency held on deposit and assets or liabilities held in Foreign Currency, such as Debtors, on the Firm's Balance Sheet. ([BIPRU 7.5](#)).

**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, when a material change to the business occurs. Senior management presents the ICAAP document to the Governing Body of the Firm which reviews and endorses the risk management objective when a material change to the business occurs at the same time as reviewing and signing off the ICAAP document.

**BIPRU 11.5.8****Disclosure:** Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the Risk of transfer pricing Cost Plus ('Cost+') system failing. The Firm benefits from a Cost+ 'guarantee' from other members of the Natixis Group. This is backed up by formal agreements and supported by the Transfer Pricing agreements the Group holds. In the event that the Cost+ fails the Firm will initiate an orderly wind-down of the Business. Where possible, mandates will be transferred to the Affiliates, or failing that, clients would have to appoint another manager – which the Firm would facilitate. The Management Action being that the Firm will always hold at least capital equivalent to the Wind-Down Costs. This is set out in the Liquidity policy

**BIPRU 11.5.12****Disclosure:** Market Risk

The Firm has Non Trading Book potential exposure only ([BIPRU 7.4](#) & [7.5](#)).

**Market Risk calculation**

	Rule	Position	Risk Weight	PRR
Interest rate positional 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	£3,865,597	8%	£309,248
Option positional risk requirement	BIPRU 7.6	£0	8%	£0
Collective investment undertaking positional risk requirement	BIPRU 7.7	£0	32%	£0
<b>Total</b>		<b>£3,865,597</b>		<b>£309,248</b>

**BIPRU 11.5.2****Disclosure:** Scope of application of directive requirements

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 Ordinary Shares and Audited Reserves/Losses.

Tier 1 Capital	£12,555k
Deductions	£k
Tier 2 Capital	£12,555k
Deductions	(£844k)
Capital Resources	£11,711k
Tier 3 Capital	£0
Deductions	£0
<b>Total Capital</b>	<b>£11,711k</b>

<b>BIPRU 11.5.5</b>
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 <a href="#">BIPRU 11.5.4R (3)</a> .
<b>BIPRU 11.5.6</b>
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 <a href="#">BIPRU 11.5.4R (3)</a> .
<b>BIPRU 11.5.7</b>
This disclosure is not required as the Firm does not have a Trading Book.
<b>BIPRU 11.5.9</b>
This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under <a href="#">BIPRU 11.5.8R (9)</a> .
<b>BIPRU 11.5.10</b>
<b>Disclosure:</b> 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 ( <a href="#">BIPRU 3.5</a> ).
<b>BIPRU 11.5.11</b>
<b>Disclosure:</b> 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 <a href="#">BIPRU 11.5.4R (3)</a> .
<b>BIPRU 11.5.13</b>
<b>Disclosure:</b> Use of VaR model for calculation of Market Risk Capital Requirement
This disclosure is not required as the Firm does not use a VaR model for calculation of Market Risk Capital Requirement.
<b>Disclosure:</b> Operational Risk
The Firm's Fixed Overhead Requirement ('FOR') is disclosed as a proxy for the Pillar I Operational Risk Capital calculation. The Firm's Pillar I Capital Resources Requirement is the FOR which is the higher of FOR and the sum of Market Risk and Credit Risk Requirement.
Fixed Overhead Requirement      GENPRU 2.1.53 <u>£6,303k</u>
<b>BIPRU 11.5.15</b>
<b>Disclosure:</b> 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****Disclosures:** Exposures to Interest Rate Risk in the Non-Trading Book

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

**BIPRU 11.5.17 Disclosures:** Securitization

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

**BIPRU 11.5.18****Disclosure:** Remuneration

The Firm is a BIPRU Firm and has applied the rules proportionally as appropriate.  
The Firm has chosen to make its Remuneration Code disclosure in its published accounts.