

# Pillar 3 Disclosures

31 DECEMBER 2019



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# 1. INTRODUCTION

## 1.1 BACKGROUND

The European Union (“EU”) Capital Requirements Directive (“CRD”) introduced consistent capital adequacy standards and an associated supervisory framework across the EU with the aim of seeking to reduce the likelihood of market disruption or consumer loss as a result of prudential failure. It does so by seeking to ensure that the financial resources held by a firm are commensurate with the risks associated with its business profile and control environment. Various amendments packages have attempted to strengthen the prudential framework for individual institutions and provide responses to financial stability concerns that have arisen during recent financial crises.

The CRD framework consists of three ‘pillars’:

- Pillar 1 – Is a formal set of rules for calculating the minimum capital that firms are required to hold to cover potential losses arising from credit, market and operational risk;
- Pillar 2 - Requires firms and supervisors to assess the need to hold additional capital against risks not adequately covered by Pillar 1 and to take action accordingly. This is achieved in the United Kingdom (“UK”) via the Individual Capital Adequacy Assessment Process (“ICAAP”); and
- Pillar 3 - Requires firms to publish certain details of their risks, risk management and capital, with the aim of encouraging market discipline. Information disclosed includes qualitative and quantitative information, complementing the minimum capital requirements of Pillar 1 and the risk-based processes of Pillar 2.

CRD IV is the fourth amendment of the CRD which came in to force on 1 January 2014. It is comprised of the Capital Requirements Regulation (“CRR”) and the Capital Requirements Directive (“CRD”). CRD IV has the effect of implementing the Basel III agreement in the EU. This regulatory framework is supplemented by technical standards issued by the European Banking Authority (“EBA”) which have been adopted by the Sarasin (U.K.) Limited group of companies (the “Group”) where relevant.

## 1.2 POLICY

Pillar 3 disclosures are produced annually and more frequently if appropriate, for example where there are material changes to the business model, regulatory permissions, or the way in which capital requirements are calculated. Should such material changes occur, they will trigger a review and disclosure update on an interim basis.

Disclosures are required to be published in conjunction with the date of publication of the Annual Report and Financial Statements. The Group has an accounting reference date of 31 December. The disclosures in this document are made as at 31 December 2019 based upon data and rules in force at that date, and are published following the publication of the Sarasin (U.K) Limited Group Annual Report and Financial Statements.

Disclosures are not subject to audit and have been prepared solely for the purpose of satisfying the Pillar 3 disclosure requirements on risks, risk management and capital. These disclosures are published on the UK corporate website for the Sarasin group at [www.sarasinandpartners.com/important-information](http://www.sarasinandpartners.com/important-information).

## 1.3 SCOPE OF APPLICATION

Sarasin (U.K.) Limited is the unregulated holding company of the Sarasin (U.K.) Limited group (the “Group”) and is subject to consolidated supervision in the UK by the Financial Conduct Authority (“FCA”). In accordance with Part Eight of the CRR, the disclosures provided in this document relate to the Group on a consolidated basis. For prudential purposes, the consolidation principles applied are consistent with the statutory consolidation principles applied in the Group consolidated statutory financial statements for the year ended 31 December 2019.

As at 31 December 2019, the Group had the following regulated subsidiaries:

- Sarasin & Partners LLP: FCA-regulated IFPRU Limited License Investment Firm. Provider of investment management and related services and the principal operating subsidiary in the Group;

- Sarasin Investment Funds Limited: FCA-regulated Collective Portfolio Management Firm. Authorised Corporate Director (“ACD”) of Open Ended Investment Companies (“OEICs”) and Manager of Sarasin Charity Authorised Investment Funds, an umbrella authorised Unit Trust registered with the Charities Commission;
- Sarasin Asset Management Limited: FCA-regulated BIPRU Firm. SEC-regulated. Provider of investment management and related services in the UK and US; and
- Sarasin Funds Management (Ireland) Limited: Central Bank of Ireland (“CBI”) regulated Management Company (Fund Service Provider). Manager and administrator of Ireland domiciled open-ended Unit Trusts and an Irish Collective Asset-management Vehicle (“ICAV”).

In addition, the following unregulated companies form part of the Group as at 31 December 2019:

- S.I.M. Partnership (London) Limited: Intermediate holding company;
- Sarasin U.S. Services Limited: Service company;
- Sarasin & Partners Ireland Limited: Dormant company; and
- SIF Nominees UK Limited: Dormant company

There are no known current or foreseen practical or legal impediments (other than those set out in law or regulation) to the prompt transfer of capital resources or repayments of liabilities between parent and subsidiary undertakings.

## 2. RISK MANAGEMENT

### 2.1 BACKGROUND

Assessing and assuming risks are an integral part of any asset management business. The Group employs a clearly-defined, transparent and integrated system of risk management, covering all of the Group’s business segments.

The ICAAP document (see also section 2.6) identifies and monitors all risks, their likelihood of occurrence and mitigating factors that Management has put in place such as internal control processes and insurance arrangements.

Active risk management minimises the likelihood of undesirable risks occurring and allows the capital of the Group to be employed as efficiently as possible to the benefit of shareholders and other stakeholders. Effective risk management is therefore a vital link in the value creation chain, as it flags up real and potential risks for the Group’s decision-makers.

### 2.2 RISK CULTURE

Risk awareness is as important to the quality of risk management as the requirement to adhere to formalised internal processes and external regulations. One of the central elements of an effective risk culture is the discipline and diligence of those responsible in performing their duties. The Group requires integrity and risk-aware conduct from employees at every level and stresses the importance of clearly-defined responsibilities.

### 2.3 RISK MANAGEMENT ORGANISATION

The Sarasin Management Board (the “Board”) carries responsibility for risk management. It is responsible for implementing risk management principles, setting strategy and formulating and implementing policy. It defines risk management parameters (such as limits and systems), risk appetite and responsibilities for monitoring.

There are a number of internal Committees that have been established to provide assurance to the Board that risk limits and appetite are not being exceeded. These include the Risk Committee, Operations Committee, Investment Performance & Risk Committee, two Remuneration Committees and the Pricing Committee.

The Risk Committee is chaired by an independent consultant and reports to the Board. It is responsible for ensuring that appropriate policies and procedures are in place to control and mitigate risk across the Group. The Committee promotes risk awareness, ensures compliance with approved risk standards and draws the attention of the Board to any risks that it perceives are not being adequately addressed. The Committee comprises representatives from all business units, including Compliance and the Risk Office. It meets at least once a month.

Risk monitoring is the responsibility of the Risk Office, Compliance and Internal Audit departments, which report directly to the Board and are therefore independent, from an organisational perspective, of the business units that actively manage risk.

The Risk Office has internal ownership of the assessment and quantification of Sarasin's risks, and measures and monitors investment risk, performance, operational risk and portfolio guideline compliance. It reports to the Risk Committee and the Board. Its primary function is to promote a risk-aware environment and to ensure that, through the collation and analysis of data, the Group can work within its risk appetite.

The Compliance Department uses its specialist expertise to support the Board in its efforts to ensure that the Firm's business complies with the laws and regulations of the UK and any country into which it promotes its funds or services. Every employee is responsible for ensuring that the rules and regulations are respected, with the Board bearing ultimate responsibility for compliance.

The Internal Audit function conducts an annual program of audits that are based on a central risk assessment model. It provides quarterly activity reports to the Board and an annual assessment of the firm's control environment.

The principal risks and uncertainties facing the Group are set out below.

## 2.4 DIRECT RISKS TO THE GROUP

### 2.4.1 OPERATIONAL RISK

Operational risk is defined as the risk of loss, resulting from inadequate or failed internal processes, people or systems, or as a consequence of external events. This definition includes legal risk, breach of regulation and trading error. These risks may have material strategic and reputational effects.

The most significant operational risks facing the Group are:

- Trading error;
- Internal and external fraud;
- Investment process breach (including asset valuation); and
- Breach of regulation.

The Risk Office monitors core operational risk using a risk matrix which is updated as new concerns arise. Operational Risk Self-Assessment is utilised, whereby business units rate the risks within their environment, creating key risk indicators that are then monitored on an ongoing basis as an alert to stressed events.

Emphasis is given to the management of operational risks in the following ways:

- Directives – These set down the main goals for the management and control of operational risk and serve as a guide for identifying and measuring operational risk and meeting reporting obligations;
- Education – Group employees are obliged to deal effectively with the risks arising in their everyday work. The line manager is supported by regularly updated information on the Group's Intranet. Background information is provided to new staff; and
- Reporting – Evaluations and analysis take place in the context of regular risk reporting to the Board.

The Incident Log for operational risks is a central pillar for the management and control of operational risk. It is used to record and categorise all operational errors or incidents that may give rise to a loss.

### 2.4.2 CREDIT RISK

Credit risk is the risk of loss caused by the failure of a counterparty to fulfil their contractual obligations. Concentration of assets with a particular counterparty can contribute to an increase in the level of risk.

The Group's principal financial assets, and therefore its primary source of credit risk, are cash balances held at bank and trade and other receivables. The credit risk on cash at bank is restricted via usage of counterparty banks with credit ratings

assigned by international credit rating agencies. The credit risk arising from transactions in fund products is limited as these transactions normally settle within four days. The credit risk arising from the settlement of outstanding fees is limited as these transactions normally settle within thirty days. Concentration risk from outstanding fee exposure is limited as exposures are spread over a large number of counterparties.

Credit risk exposure is regularly reviewed and is managed in accordance with the risk appetite of the business via the application of policy set in relation to the type of counterparty used, the level of concentration allowed and, in the case of cash deposits, counterparty limits set.

### **2.4.3 FOREIGN CURRENCY RISK**

Foreign currency risk is the risk that arises from the change in the price of one currency against another. It is defined as the risk that exchange rates will change unfavourably, particularly where there are assets or income flows in different currencies and their positions are not hedged.

The Group is exposed to foreign currency risk through its assets, liabilities, income and expenses denominated in currencies other than Sterling, where their positions are not hedged. Exposure is mainly restricted to the major global currencies. Risk is managed via the regular monitoring of the level and duration of contractual exposure to those currencies and movements in rates of exchange to Sterling.

## **2.5 INDIRECT RISKS TO THE GROUP**

In addition to the principal direct risks detailed above, the Group is also exposed to indirect risks arising from investments made, and assets managed, on behalf of customers. The primary source of revenue for the Group is directly linked to the value of the investments managed on behalf of customers (assets under management) which is primarily driven by two factors: the relative performance of the investments held on behalf of customers and the ability to retain and acquire customer assets (which is itself driven in part by investment performance). The achievement of a reasonable return on any investment inevitably entails a degree of risk tolerance in the long run, and it is particularly important to have a full overview of total risk exposure of an investment at all times. Given the volatility of financial markets, the quality of risk management in this area has become a crucial competitive factor in the industry, and the integrated system of risk management employed ensures that the Group is well placed to effectively manage these risks.

## **2.6 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (“ICAAP”)**

The Sarasin ICAAP has a singular aim, to ensure that the Group has analysed, understood and assessed all material risks to which it is exposed. It ensures that the Group has sufficient capital and controls in place to mitigate the risks. This has the intention of ensuring that the business is run on a sustainable basis and that no client suffers adversely as a consequence of the Group’s day-to-day business exposures.

The ICAAP report is produced annually and represents the Group’s assessment of its internal capital requirements. A mid-year review would be triggered should any material change to the profile of the business occur.

The ICAAP report presents the work undertaken with regard to the ICAAP process. It is written in accordance with FCA and industry guidance and reflects the Group’s structure, ICAAP requirements, overall risk appetite, material risks faced by the business, risk mitigation, capital planning requirements and stress and scenario testing undertaken to support the overall findings. The Risk Office coordinates the ICAAP report production process and is updated with ‘risk events’ on a monthly basis, which are reported in a monthly Executive Management Information pack. On a quarterly basis, a report is provided to the Board, highlighting any changes to the risk profile of the business. Capital projections for stress testing, wind-up scenarios and capital planning forecasts are undertaken by the Finance department. The ICAAP report is formally challenged and approved by the Board. The latest ICAAP report was approved by the Board on 11<sup>th</sup> December 2019.

### 3. CAPITAL

#### 3.1 CAPITAL RESOURCES (“OWN FUNDS”)

Under regulatory rules, capital is classified as “Tier 1” or “Tier 2” depending on the degree of permanency of the capital and the degree to which it can absorb losses. Tier 1 capital is the core measure of a firm’s financial strength from a regulatory perspective and includes ordinary share capital, share premium, audited retained earnings and other qualifying reserves. Tier 2 capital includes subordinated debt and revaluation reserves. All of the Group’s financial resources comprise Tier 1 capital. The carrying value of intangible assets is required to be deducted from Tier 1. Group intangible assets include goodwill and computer software licenses.

#### CAPITAL RESOURCES

			31 Dec 2019	31 Dec 2018
		NOTES	£’000	£’000
<b>Tier 1 Capital</b>				
Paid up capital instruments		1	17,900	17,900
Share premium			12	12
Retained earnings		2	8,087	7,471
Minority interests		3	14,617	14,649
Other reserves		4	412	412
<b>Total Tier 1 Capital (before deductions)</b>			<b>41,028</b>	<b>40,444</b>
<b>Deductions from Tier 1 Capital</b>				
Goodwill		5	(16,346)	(16,346)
Other intangible assets		6	(32)	(55)
<b>Total Deductions from Tier 1 Capital</b>			<b>(16,378)</b>	<b>(16,401)</b>
<b>Total Tier 1 Capital (after deductions)</b>			<b>24,650</b>	<b>24,043</b>
<b>Total Group Financial Resources (“Own Funds”)</b>			<b>24,650</b>	<b>24,043</b>

Source: Sarasin & Partners

#### NOTES

1. Paid up capital instruments comprise ordinary share capital that is allotted, called up and fully paid. It is permanent share capital, subscribed for by the Group’s parent organisation Bank J. Safra Sarasin Limited or intermediate holding companies. Its purpose is to fund the going concern and working capital needs of the Group.
2. Retained earnings comprise audited profit and loss reserves retained by the business, attributable to the controlling shareholder.
3. Minority interests comprise audited profit and loss reserves attributable to non-controlling shareholders.
4. Other reserves comprise a distributable reserve.
5. Goodwill comprises the net book value of unamortised goodwill that arose on historic business combinations.
6. Other intangible assets comprise the net book value of other intangible assets, principally computer software.

## 3.2 CAPITAL RESOURCE (“OWN FUNDS”) REQUIREMENTS

As explained in Section 1.1, Pillar 1 provides rules for the calculation of minimum capital requirements for credit risk, market risk and the fixed overhead requirement.

The Group has elected to adopt the standardised approach for credit risk to calculate the minimum credit risk capital requirement under Pillar 1. Under this approach, the minimum capital requirement is 8% of risk weighted exposures.

The Group’s Pillar 1 minimum capital requirement is calculated as the higher of: (i) the sum of credit risk plus market risk, and (ii) the fixed overhead requirement, as set out below.

### CAPITAL RESOURCE (“OWN FUNDS”) REQUIREMENTS

	31 Dec 2019	31 Dec 2019	31 Dec 2018	31 Dec 2018
	£'000	£'000	£'000	£'000
<b>Credit risk requirement</b>				
Institutions	707		789	
Corporates	645		423	
Retail	969		584	
Other	2,399		1,549	
<b>Total Credit risk requirement</b>		<b>4,720</b>		<b>3,345</b>
<b>Market risk requirement</b>				
Foreign exchange	311		379	
<b>Total Market risk requirement</b>		<b>311</b>		<b>379</b>
<b>A. Total Credit + Market risk requirements</b>		<b>5,031</b>		<b>3,724</b>
<b>B. Fixed overhead requirement</b>		<b>9,895</b>		<b>9,095</b>
<b>C. Total Own Funds Requirement (higher of A and B)</b>		<b>9,895</b>		<b>9,095</b>

Source: Sarasin & Partners

## 3.3 CAPITAL ADEQUACY

Under CRD IV, firms are required to maintain a minimum total capital ratio of 8% (representing the ratio of a firm’s capital to its risk), calculated using total exposure values which comprise the Pillar 1 requirement times 12.5. The surplus of total capital is the surplus of capital resources over the Pillar 1 capital requirement. The total capital ratio for the Group at 31 December 2019 was 19.93% (31 December 2018: 21.15%).

The minimum total capital ratio for the Group is adjusted from 8% to 9.12% to incorporate Individual Capital Guidance (“ICG”) issued by the FCA. Inclusive of the ICG, the Group’s regulatory capital surplus at 31 December 2019 was £13.4m (31 December 2018: £13.7m).

## **4. REMUNERATION POLICY**

The Group's remuneration policy is compliant with Pillar III requirements as set out in Part Eight of the CRR. The policy is disclosed in a separate document on the Group website at [www.sarasinandpartners.com/important-information](http://www.sarasinandpartners.com/important-information).

## IMPORTANT INFORMATION

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