Architas Advisory Services Limited

Pillar 3 Disclosures

1.0 Introduction

This document is a summary of the Pillar 3 disclosure requirements that are required to be disclosed under the Capital Requirements Directive (CRD) as laid out in Chapter 11 of the prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU). The CRD consists of three pillars:

- Pillar 1 specifies the minimum capital levels that the business is required to carry to cover the risks to the business.
- Pillar 2 sets out the supervisory review process to be used by both the business and the Financial Conduct Authority (FCA) to determine whether additional capital should be maintained against any risks not adequately covered under Pillar 1.
- Pillar 3 specifies the disclosure requirements which a business is required to make of its capital, risk exposures and risk assessment process.

Disclosures have been made in this document in compliance with BIPRU 11. This document will be updated on an annual basis or more frequently if required due to material changes.

2.0 Business Structure

Architas Advisory Services Limited (AASL) is authorised and regulated by the FCA. AASL is categorised as a BIPRU €50k limited licence firm by the FCA and consequently calculates its Pillar 1 Capital requirement as the higher of its fixed overhead requirement (FOR) and the sum of credit and market risk capital requirements.

AASL is a wholly owned subsidiary of Architas Limited, which in turn is a wholly owned subsidiary of AXA UK plc.

The principal activities of AASL are to provide investment management and investment advisory services to current and former AXA Group companies.

3.0 Scope

This disclosure relates solely to the business of AASL and does not relate to any other AXA regulated entity.

4.0 Capital Resources

The business has calculated its capital needs in accordance with the relevant FCA regulations for the base capital requirement, the credit risk requirement, market risk requirement and the fixed overhead capital requirement.

The Pillar 1 requirement is the higher of the fixed overhead requirement and the total of our credit risk and market risk requirements. This is the fixed overhead requirement, which is one quarter of our previous year's audited adjusted annual expenditure, since the credit risk and market risk requirements are immaterial in comparison. The figures below are as at 31 December 2017.

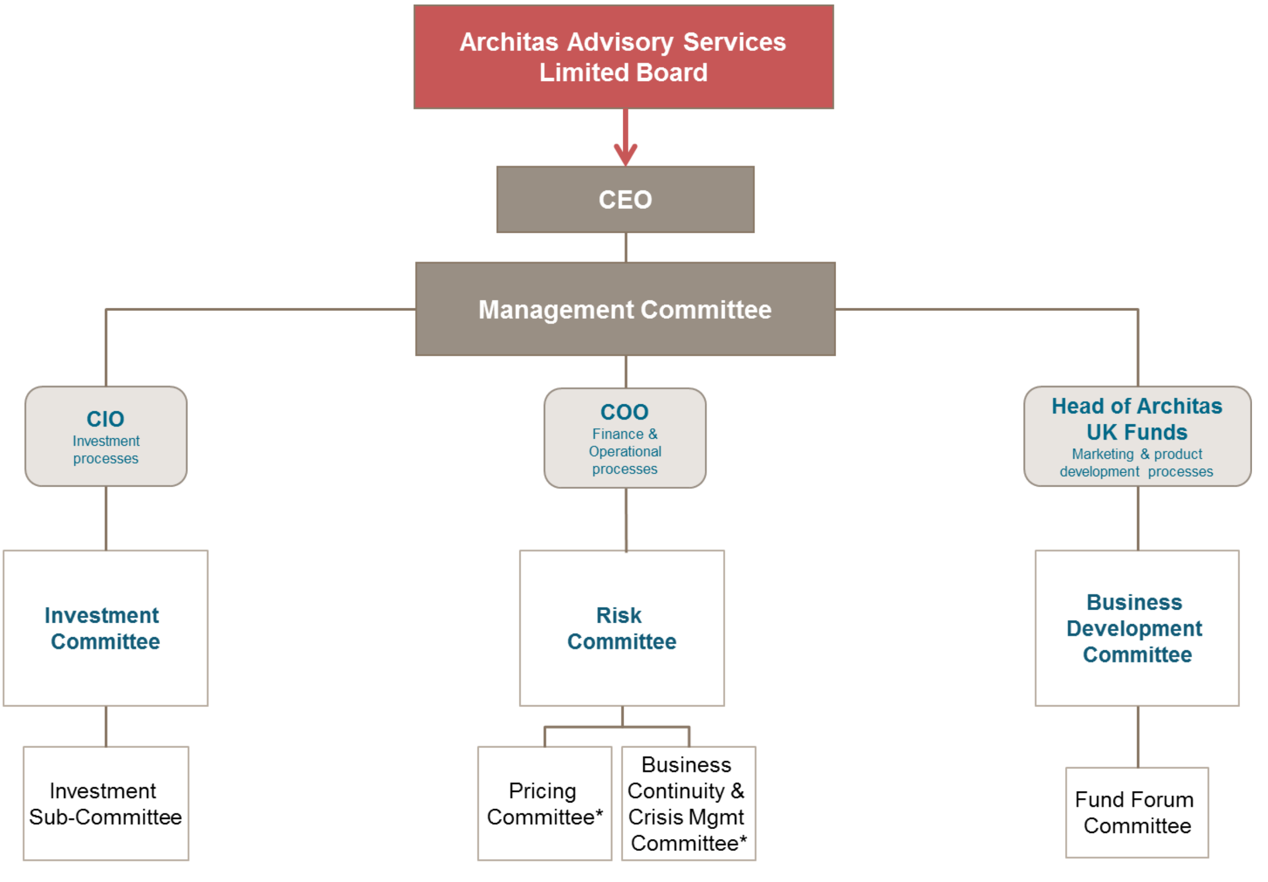
	£m
Tier 1 capital resources	4.974
Tier 1 capital deductions in respect of intangible assets	Nil
Tier 1 capital resources after deductions	4.974
Tier 2 capital resources	Nil
Total capital resources before deductions	4.974
Deductions from total capital	Nil
Total capital resources after deductions	4.974

In addition to Pillar 1 Capital we are required to hold additional capital in respect of Pillar 2. This is calculated following a detailed risk assessment process, which is supported by the Risk Management Framework outlined below.

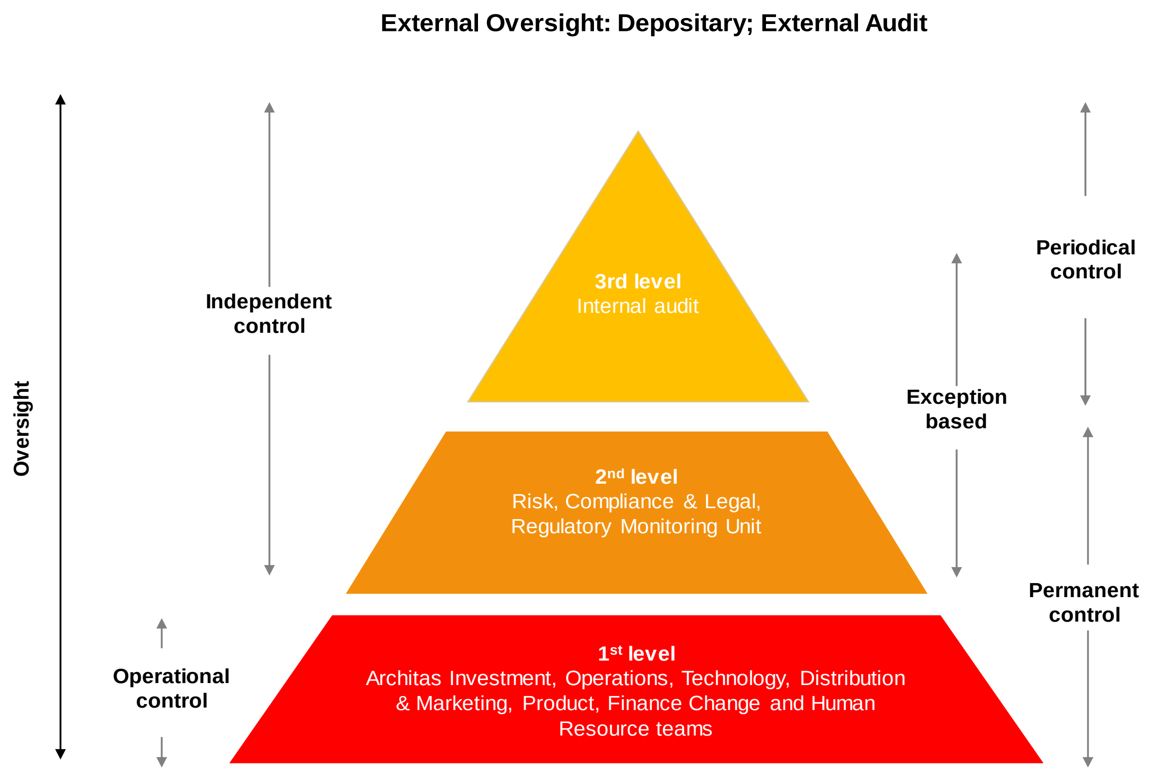
5.0 Risk Management Framework

AASL is part of the AXA UK Group which has established a group-wide risk management framework and policies. These are designed to provide a mechanism and framework for risks identification and controls. In addition, AASL has its own risk function, governance structure and processes appropriate for an Investment Management Company with specific focus on risk identification, control and management and risk management feeds into the decision making processes.

An overview of the AASL risk governance structure is shown below together with a diagram showing the three lines of defence model in place.



- Each committee escalates matters and risks upwards, as appropriate
- Committees meet on a monthly basis, except for the committees marked with * , which meet quarterly



5.1 Risk identification, assessment and management

The Company has adopted a comprehensive risk assessment methodology in accordance with the AXA UK Group requirements to identify, evaluate and manage the risks to which the Company is exposed.

Risks are assessed within AASL at a functional level with reference to risk categories and the Company's knowledge of both internal and external loss events.

The extent to which AASL is exposed to a particular risk is assessed on the basis of frequency of occurrence and severity of impact when considering the internal control environment surrounding the risk and an extreme scenario of no or failing controls. This allows identification of both the gross, inherent risk exposure and the net, residual risk exposure post controls.

The risk owners are responsible for ensuring that effective and appropriate controls are implemented and maintained to mitigate the risks identified.

The AASL risk team challenges the results of the risk identification and assessment process performed within each function.

The functional risk profiles are consolidated to provide a view of risks across AASL in particular to:

- Identify and report on the top risks across the Company at a point in time
- Compare and aggregate risk profiles across the Company in order to identify trends and themes

Reports on the risks are provided to and reviewed by governance bodies including the Risk Committee, Management Committee and the Board.

6.0 Key Risks

Key risk areas identified, assessed and managed are as follows:

6.1 Operational & Business Risks

Operational risk is the risk of loss due to failed or inadequate people, processes or systems. The failure or inadequacy may result from both internal and external causes.

Key operational risks considered using the risk assessment methodology include:

- Breakdown of employee relations or failure to adhere to employment law
- Business disruption
- Material investment error
- Fraud

Operational risks are managed within management's tolerance for risk.

6.2 Non-Key Risks

Whilst some operational risks are key to the Company's business, there are also other risks that the Company may be exposed to. The Company is exposed to these risks through the inherent uncertainty in undertaking business affecting its financial assets and liabilities. The most important components are market, credit and liquidity risks.

6.3 Liquidity Risk

Liquidity or cash flow risk is defined as the risk that the Company, irrespective of solvency and profitability, may not have sufficient available cash (or near cash assets or funding facilities) to enable the Company to meet its day to day liabilities as they fall due.

Due to the high level of capital held by the Company to meet both its Pillar 1 requirement and operational risks (Pillar 2), AASL does not face a significant liquidity risk in the normal course of business.

6.4 Credit Risk

Credit risk can be defined as the risk of capital or income loss resulting from counterparty default or issuer credit downgrades. Credit risk can arise from investment related assets or from non-investment related assets. An AXA UK group-wide policy exists for the control of investment related credit risk whilst a business unit level policy exists for non-investment related items.

The most significant credit risks are those for the sales debtors on the AASL balance sheet and the AASL bank accounts. These risks are monitored and mitigated as appropriate and are not considered to be material.

6.5 Market Risk

Market risk can be defined as the risk that movements in market factors namely equity, bond, property and commodity prices, interest rates and foreign exchange rates impact adversely the value of and income earned from the assets under management. AASL has considered the impact of market movements to the assets held on its balance sheet. The only assets affected by market movements are foreign currency cash and debtor positions. AASL's policy is to keep these holdings to a minimum.

6.6 Other Risks

There are other risks outlined within Chapter 1 of the General Prudential sourcebook (specifically GENPRU 1.2.30R), as well as other risks identified internally which are not currently significant or appropriate to AASL's business or have been considered as part of the risks outlined in 6.1. These include:

- Group risk
- Insurance risk
- Concentration risk
- Residual risk
- Breaches of regulation and legislation
- System failures
- Securitisation risk
- Fund pricing error
- Failure of outsourced third party supplier or key external vendor
- Interest rate risk
- Pension obligation risk
- Literature risk

6.7 Remuneration Disclosure 2017

AASL obtained authorisation from the FCA on 24 October 2016 as a BIPRU firm, and as such is now subject to Chapter 19C of the FCA's Senior Management Arrangements, Systems and Controls (SYSC) Handbook ("the Remuneration Code"). AASL has adopted a remuneration policy ("the Remuneration Policy") that will address the requirements of the Remuneration Code. The Policy covers all aspects of staff reward in AASL, including all fixed and variable components of remuneration, such as salaries, pensions and other benefits. The Policy is intended to incentivise and reward performance and encourage staff retention, but to do so in a manner that:

a) Is consistent with, and promotes sound and effective risk management;

b) Does not encourage risk-taking which is inconsistent with the risk profiles, instruments or prospectuses of the funds to which it relates; and

c) Does not impair our compliance with our duty to act in the best interests of those funds.

The Policy comprises a number of interlinked components, which are applied depending on the level of an individual's seniority within the business:

- **Annual Pay Review** - Awards are based upon the job evaluations and with reference to market rates.

- **Annual Bonus (Short Term Incentive Compensation)** - Awards are based on a combination of Company and Personal Performance factored against market rates. Company results adjust the level of personal performance awards available based upon agreed business measures such as New Money, Assets, profit and loss, customer scope, expenses etc.

- **Deferred Incentive Scheme (Long Term Incentive Plans)** – The LTIPs are granted to recognise the employees' performance (measured against annual objectives) and to support retention. Awards have varying vesting periods (typically 3 – 4 years) providing access to, typically, Cash Awards/AXA Shares/Deferred Bonus. Such awards can be subject to affordability and company performance criteria. The malus and clawback clauses are in place in the event of regulatory breach. The Remuneration Policy is designed by Human Resources Department ("HR"), in consultation with the Compliance Function and the Independent Risk Function. The overall policy is reviewed and approved at least once a year by the AASL Remuneration and Nomination Committee.

At least one performance measurement for all staff must be linked to risk control. Apart from this, objectives are set at the discretion of line managers, with oversight by HR, but will inevitably reflect company, departmental and managerial objectives.

All awards are assessed by the Remuneration Committee for their appropriateness in view of their affordability and the risk profile of AASL.

Code Staff

In line with the requirements of the Code, AASL has identified the key individuals in the firm who act either as senior managers, risk takers or control functions. These individuals are nominated “Code Staff” and their variable remuneration awards are subject to specific provisions within the Code, under which:

a) A certain minimum proportion of any award must be deferred over a period of at least three years;

b) A certain proportion of both the immediately payable and deferred components must be paid in the form of units in a representative sample of Architas’ UK authorised funds. The Code Staff member must then retain these units for a period that is appropriate in view of the minimum holding period recommended to our investors; and

c) Awards that are subject to the two above requirements are based on multi-year performance

Variable remuneration awards to Code Staff must be specifically approved by the AASL Remuneration and Nomination Committee which must also approve the vesting of any awards deferred from previous years, and as noted above, remain appropriate in view of their affordability and the risk profile of Architas and its funds. The committee members are well informed on the risk profile of the company and its funds, being both members of the board and of the AXA UK Audit and Risk Committee.

The Remuneration Committee (“the Committee”)

The members of the Committee are:

- Mr. P. F. Hazell (non – executive directors)

Mr. P. F. Hazell is also Chairman of the Committee

In addition to approving the Policy and the variable awards to Code Staff, the Remuneration Committee is responsible for:

- Determining the policy regarding executive remuneration with guidance from the AXA Group Remuneration Policy.

- Determining the participation of executives in any discretionary employee incentive scheme.

- Ensuring the general principles of the FCA Remuneration Code are adopted and implemented.

- Overseeing remuneration concerning Code Staff.

- Ensuring that a central, independent internal review is undertaken annually of compliance with remuneration policies and procedures in respect of Code Staff.

- Ensuring that Risk Management and Compliance functions have appropriate input into setting remuneration policy, including the validation and assessment of risk-assessment techniques in relation to the Code Staff.

- Agreeing the Short Term Incentive Compensation (STIC) metrics at the beginning of each year, and

- There were 8 Code Staff categorised as Senior Management, including the Managing Director and 9 Other Code Staff as at 31 December 2017. Aggregate remuneration expenditure in respect to Code Staff as follows:

	Senior Management	Other Code Staff	Total
Total Remuneration	£232,106	£117,317	£349,424
Fixed Remuneration	£81,126	£65,537	£146,664
Variable Remuneration	£150,980	£51,780	£202,760
Number of Code staff	8	9	17

Aggregate remuneration consists of base salary, annual bonus and long-term incentive awards.