

Pillar 3 Disclosure

incorporating Remuneration Code Disclosure

INTRODUCTION AND SCOPE

The Capital Requirements Directive ('CRD') of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital that must be maintained by credit institutions and investment firms. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ("FCA").

The FCA framework comprises three Pillars:

- Pillar 1 sets out the minimum capital amount that meets the firm's Credit, Market and Operational risks;
- Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks or whether additional capital is required and to document this in an ICAAP document. The results of the ICAAP are subject to annual disclosure to the FCA; and,
- Pillar 3 requires public disclosure of specified information about the capital position and the underlying risk management controls.

This Pillar 3 disclosure document covers T. Bailey Asset Management Limited ('TBAM') and T. Bailey Fund Services Limited ('TBFS'), both wholly owned subsidiaries of T. Bailey Holdings limited ('TBH').

TBAM's parent company, TBH and sister company, TBFS are, along with TBAM, part of a group headed by Nottingham Industrial Group Limited. This Pillar 3 disclosure has been prepared on an individual company basis for TBAM and a consolidated group basis in accordance with BIPRU Chapter 11 of the FCA Handbook.

Figures are based on the financial year ended 30 September 2017 and the ICAAP (Internal Capital Adequacy Assessment Process) document approved in November 2017.

TBAM provides investment management and investment advisory services and is authorised and regulated by the FCA. TBAM is categorised as a BIPRU limited licence €50k firm by the FCA for the purposes of Prudential Standards. TBAM is subject to CRD III. TBFS provides fund management, hosted authorised corporate director and fund administration services to collective investment schemes and is authorised and regulated by the FCA. TBFS is categorised as an IPRU(INV) firm by the FCA for the purposes of Prudential Standards. TBFS is a UCITS firm and Small authorised UK AIFM. TBH is not FCA authorised.

It is the policy of TBAM to publish its Pillar 3 disclosure annually on both the TBAM website (www.tbaileyam.co.uk) and the TBFS website (www.tbaileyfs.co.uk). This disclosure is made on or around 31 January each year, and is based on the audited annual reports and financial statements for the previous year ended 30 September and the ICAAP document approved in the previous November each year. Information will not be disclosed if it is not regarded as material or if it is regarded as proprietary or confidential.

RISK MANAGEMENT FRAMEWORK

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The Boards of TBAM, TBFS and TBH determine the business strategy and risk appetite for each firm together with the design and implementation of an appropriate risk management framework.

The Boards are the governing bodies ultimately responsible for the risk management framework within each business. The Boards are responsible for ensuring an appropriate governance regime is in place, including ensuring effective processes are in place to identify, monitor, report and manage the risks that the firms are, or may be, exposed to. Where appropriate, the Boards have delegated powers to committees for the efficient and effective operation of the businesses and these committees, amongst other functions, report risks to the Boards.

Risk management is viewed as the responsibility of all employees and directors within the firm. A group operational risk register is maintained which monitors key risks and controls on an ongoing basis. Risks are assessed in terms of the probability of the risk occurring and likely impact. Reasonable steps are taken to reduce the probability of any risk crystallising and any impact arising. Regular Management Information is produced to ensure key risks can be monitored.

The Compliance department will also provide advice and guidance to the businesses on the quality and effectiveness of the control structures in place, and will work with the businesses to ensure internal control failures are addressed as necessary. The Compliance Director reports to the Boards on any significant internal control failures and on the quality of the risk management framework in place, making suggestions for improvements where necessary.

ICAAP

TBAM is required to prepare an internal assessment of its capital adequacy, referred to as an ICAAP. This is prepared on a solo and consolidated basis (therefore incorporating the activities of TBFS).

The purpose of the ICAAP is to document the group's risk appetite (the degree of risk that the Boards are willing to accept without applying further resources and capital to mitigate the risk) and to assess whether the Capital Resources are sufficient to meet all the principle risks to which the firms could be exposed. The ICAAP includes a series of stress tests and scenarios which are used to help assess whether TBAM / the group is adequately capitalised to withstand a range of adverse circumstances and scenarios. The ICAAP also models a wind down over 12 months in order to demonstrate that sufficient capital is maintained to ensure that such a wind down can be conducted in an orderly manner, i.e. all mandates, funds and client assets could either be transferred to other providers or back to clients in a safe and timely manner.

MATERIAL RISKS

The following risks are considered within the risk management framework:

- Market Risk
- Credit Risk

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- Interest Rate Risk
- Liquidity Risk
- Operational Risk

Neither TBAM nor TBFS trade on their own account, and income is generated from the Collective Investment Schemes managed by TBFS, so Market Risk and Credit Risk are both assessed as low. Consideration is given, however, to both Credit Risk and Market Risk in the ICAAP as part of the 'Pillar 1 Plus' approach (see below). Neither TBAM nor TBFS has any borrowings so interest rate risk is also assessed as low. A Liquidity Risk Management Framework is in place to ensure, as far as possible, that liquidity is sufficient to enable liabilities to be met as and when they fall due. Operational Risk is the risk that losses could be sustained (either directly or indirectly) through inadequate or failed internal processes, people, systems and/ or external events. As outlined above, the risk register is designed to assist in capturing all material operational risks and is used to rank the risks (likelihood, impact), identify mitigating factors (e.g. existing controls) and identify action points. As part of the ICAAP, these operational risks are taken into account as part of the 'Pillar 1 Plus' approach.

CAPITAL RESOURCES

Individual Company Position

TBAM is small and its business is not viewed as complex following the guidance in the FCA handbook (BIPRU 2.2). It does not have to calculate a Market Risk or Operational Risk capital requirement since it is BIPRU Limited Licence firm with no trading book. TBAM's Base Capital Requirement is €50,000 and its total variable capital requirement is the greater of:

- The sum of the Market and Credit risk requirements; and,
- The Fixed Overhead Requirement plus Pillar 2 adjustment.

TBAM's Fixed Overhead Requirement is £290k, a figure which is greater than the sum of the Market and Credit risk requirements. This is therefore the basis of the Pillar 1 requirement.

When considering the adequacy of Pillar 1, an assessment of risks is performed. The Pillar 2 adjustment is zero making TBAM's ICAAP Capital requirement total **£290k**.

Consolidated Group Position

The consolidated group's base capital requirement of €50,000 and its total variable capital requirement is the greater of:

- The sum of the Market and Credit risk requirements; and,
- The Fixed Overhead Requirement plus Pillar 2 adjustment.

The consolidated group's Fixed Overhead Requirement is £855k, a figure which is greater than the sum of the Market and Credit risk requirements. This is therefore the basis of the Pillar 1 requirement.

When considering the adequacy of Pillar 1 as part of the ICAAP assessment, consideration is given to credit risk, market risk and other Pillar 2 risks (i.e. the 'Pillar 1 plus' approach is

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taken). This assessment of risks identified leads to a Pillar 2 adjustment of zero making TBAM's ICAAP Capital requirement total **£855k**.

Tier 1 Capital

TBAM's individual company capital position as at the end of the financial year ended 30 September 2017 is summarised in the table below. The consolidated group position is also shown.

Capital item	TBAM	Consolidated
	£k	£k
Called up Share Capital	1,395	3
Share Premium	3,075	3,230
Audited Reserves	(850)	2,935
Tier 1 capital less innovative Tier 1 capital	3,620	6,168
Total of Tier 2, innovative Tier 1 and Tier 3 capital	-	-
Deductions from Tier 1 and Tier 2 Capital	-	-
Total capital resources net of deductions	3,620	6,168

Tier 1 Capital is made up of Permanent Share Capital, Share Premium and Audited Reserves.

TBAM, therefore, maintains an adequate level of total capital resources to satisfy the regulatory capital requirements. This is true for TBAM on an individual company basis and for the consolidated group.

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REMUNERATION CODE

TBAM, TBFS and TBH have policies and practices for those staff whose professional activities have a material impact on the risk profile of the combined activities. TBAM is a BIPRU firm and is therefore subject to the BIPRU Remuneration Code. TBFS is a UCITS firm and is therefore subject to the UCITS Remuneration Code. As remuneration policies are operated at a group level, there is one Remuneration Policy Statement ('RPS') covering TBFS and TBAM and TBH.

The Remuneration Policy:

- (i) Is consistent with and promotes sound and effective risk management;
- (ii) Does not encourage risk taking that exceeds the level of tolerated risk of the T. Bailey Group, or the UCITS funds for which TBFS acts as Authorised Corporate Director/ Authorised Fund Manager (the 'UCITS funds');
- (iii) Encourages behaviour that delivers results which are aligned to the interests of TBAM's clients and the UCITS funds;
- (iv) Aligns the interests of Code Staff with the long-term interests of TBAM's clients and the UCITS funds;
- (v) Recognises that remuneration should be competitive and reflect both financial and personal performance. Accordingly, Remuneration for Code Staff is made up of fixed pay (salary and benefits, including pension) and variable (performance-related) pay;
- (vi) Recognises that fixed and variable components should be appropriately balanced and that the variable component should be flexible enough so that in some circumstances no variable component may be paid at all. Variable pay is made up of short-term awards typically based on short-term financial and strategic measures for the area of the business in which the member of Code Staff works;

In accordance with BIPRU 11.5.18R the following disclosures are made:

1. Decision making process for determining remuneration policy, link between pay and performance

There is no remuneration committee. The Board of TBH oversees the setting and review of remuneration levels performed by the operating Boards of TBAM and TBFS. Remuneration is set within the context of a 5-year plan which ensures any threats to capital adequacy, liquidity and solvency caused by excessive remuneration would be identified. The bonus and commission arrangements including the staff bonus pool are set annually as part of the annual operating plan and any changes to the pool require approval by the CEOs of TBAM and TBFS and also the Board of TBH.

The main shareholders are represented on the Board of TBH which ratifies the annual operating plans. The annual operating plan includes the level of remuneration for all staff including Code Staff.

To assist with the above process, a benchmarking exercise was conducted in 2015 which incorporated information from external consultants in connection with remuneration.

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2. Policy on link between pay and performance

The staff bonus scheme is operated so as to allow for meaningful rewards to be paid to staff whose performance during the year merits recognition but within the context of an annual operating plan. The TBH Board bears in mind the projected performance of the companies when making any adjustments to the scheme. Payment of scheme bonus to individuals is linked to their performance against agreed objectives from staff appraisals.

For Code Staff employed in the TBAM Sales Team, variable remuneration is governed by the commission paid in accordance with their contractual terms and conditions.

The TBH Non-Executive Directors serve under letters of appointment agreed by the TBH Chairman. Their remuneration is determined by the TBH Chairman and is based on the time commitment of their involvement. Any other services provided are remunerated on separately agreed terms.

3. Required statistics under the Code (year ended 30 September 2017)

The remuneration for Code Staff in the group broken down by business area was as follows:

	TBAM	TBFS	TBH	Total
Number	(4)	(9)	(4)	(17)
	£k	£k	£k	£k
Fixed	406	679	283	1,368
Variable (all cash)	52	38	0	90
Total	458	717	283	1,458

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The remuneration for Code Staff in the group broken down by senior management and staff with a material impact on risk profile was as follows:

	Senior Management	Staff with Material Impact	Total
Number	(15)	(2)	(17)
	£k	£k	£k
Fixed	1,298	70	1,368
Variable (all cash)	70	20	90
Total	1,368	90	1,458

From an average group headcount of 47, there were 17 Code Staff. Of the 17, 10 were Board Directors, 5 were Senior Managers and 2 were members of staff whose actions have a material impact on the risk profile of the firm.

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