

# Pillar 3 Disclosures

31 December 2021

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# 1. Introduction

## 1.1 Background

Crown Agents Investment Management Limited (“CAIM”, “the Company”) is a company authorised and regulated by the Financial Conduct Authority and is owned by funds managed by Helios Investment Partners LLP. The Company and its sister company, Crown Agents Bank Limited (“CAB”) are subsidiaries of CABIM Limited, which is owned by funds managed by Helios Investment Partners LLP.

The Company is required to meet the capital requirements set out in the Capital Requirements Directive (“CRD”). The CRD introduced a new framework under which banks and financial institutions are required to calculate their capital. This was based on global standards introduced by the Basel Committee on Banking Supervision through the Basel framework. The framework consists of 3 Pillars:

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**Pillar 1 Minimum Capital Requirements:** defines the rules for the calculation of credit, market and operational risk to ensure that financial institutions hold adequate regulatory capital against the risks they assume within their current business.

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**Pillar 2 Supervisory Review Process:** sets out the key principles for the supervisory review of a financial institution’s risk management framework and its capital adequacy. It sets out specific oversight responsibilities for both the Board and senior management, thereby reinforcing the principles of internal control and other corporate governance practices.

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**Pillar 3 Market Discipline:** sets out the items covered by this report; it requires expanded disclosures to permit investors and other market participants to obtain an understanding of the risk profiles of the financial institution.

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The Financial Conduct Authority (“FCA”) has responsibility for implementing the CRD within the United Kingdom. The FCA sets out its minimum Pillar 3 disclosure requirements in its handbook, the Investment Firms Prudential Sourcebook (“IFPRU”).

The disclosure requirements in the Capital Requirements Regulation (“CRR”) Part 8 and IFPRU aim to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2), and to encourage market discipline by allowing market participants to assess the impact of key information on risk exposures and the risk assessment processes of the firm.

From 1 January 2022 CAIM will be subject to the new Investment Firm Prudential Regime.

This document sets out CAIM’s Pillar 3 disclosures in accordance with this requirement. These disclosures have not been, and are not required to be, subject to independent external audit, and do not constitute any part of CAIM’s financial statements.

## 1.2 Frequency, Location and Verification

CAIM publishes its Pillar 3 Disclosures on an annual basis. The disclosures:

- Are based on the results of the year ended 31<sup>st</sup> December 2021 (with comparatives) unless otherwise stated and should be read in conjunction with CAIM’s Annual Report and Financial Statements.
- Have not been, and are not required to be, subject to independent external audit and do not constitute any part of CAIM’s Financial Statements.

- Are published on the company internet once approved by the Board.

### 1.3 Scope of Disclosure

CAIM is an unquoted company registered in England with no subsidiaries or branches.

## 2. Overview of Risk Management Arrangements

### 2.1 Enterprise Risk Management Framework

The Enterprise Risk Management Framework (ERMF) sets out how CAIM manages risk on a firm-wide basis. It aligns the overall strategic and commercial objectives approved by the Board with risk management and governance. The ERMF is approved by the Board on recommendation from Executive Committee (EXCO) and the Chief Risk Officer (CRO) and is then adopted.

The ERMF outline the risk governance arrangements at both the Board and Executive level for providing risk management and oversight.

### 2.2 Board Level Governance

The Board is the primary governing body and has ultimate responsibility for setting the strategy, corporate objectives, and risk appetite.

From a Risk Management perspective, the Board is responsible for:

- a. Approving the strategy, 3-year financial plan and annual budgets, considering the impact on risk appetite, wider risk management profile and risk related activities
- b. Approving the Internal Audit ("IA") Plan, receiving period reports from Internal Audit and tracking closure of these audit issues
- c. The establishment, approval and periodic review (at least annually) of the and policies as outlined in the ERMF
- d. The establishment, approval and periodic review (at least annually) of the Risk Appetite Tolerance Statements (RATS), which sets out the levels of risk which CAIM are willing to accept
- e. Overseeing that CAIM complies with the relevant regulatory and compliance requirements
- f. Approval of delegated authority to the Chief Executive Officer (CEO) and Executive Committee (EXCO)
- g. Setting the tone and culture for risk management

The Board also maintain a close oversight of current and future activities through a combination of regular board reports and monthly financial results, including budgets, forecasts, and other operational reports.

### 2.3 Executive Level Governance

The Executive level committee structure and TORs are owned and approved by EXCO. The latest versions are available from either the Company Secretary or the Risk and Compliance (R&C) department.

#### 2.3.1 Executive Committee (EXCO)

EXCO takes day to day responsibility for running CAIM. The EXCO implements the strategies and financial plans, which are approved by the Board at least annually and ensures the performance of the business is conducted in accordance with the Boards established risk appetites. The CEO and EXCO report to the CAIM Board on a regular basis.

EXCO provides Enterprise-Wide Risk oversight. It delegates authority of day to day Financial Risk matters to the following sub-committees which cover CAIM, CAB and CABIM (the financial Hold-Co), and receives escalations as appropriate:

- Asset and Liabilities Committee (ALCO)
- Credit Risk Committee (CRC)

The EXCO are responsible for the review and approval of all CAIM specific policies at least annually.

EXCO approved delegated authorities for individuals to operate within.

### **2.3.2 Credit Risk Committee (CRC)**

The role of the Committee is to:

- review credit exposures to ensure they remain within respective credit risk tolerances and Early Warning Indicators (EWI)
- assess prospective and existing clients and counterparties
- review client, counterparty and country exposures, as well as considering issues of a strategic (credit related) nature
- Reviews Credit Risk RATS at least annually and any ad-hoc proposed changes

### **2.3.3 Assets and Liabilities Committee (ALCO)**

ALCO has been established to manage Prudential Risks and Treasury activities by:

- Developing and maintaining the Prudential risk framework through which Prudential risk is monitored, measured and managed
- Maintaining and monitoring compliance with Treasury Policy and procedures and with external regulatory and legal requirements
- Monitoring forthcoming Prudential regulation and managing CAB, CAIM and CABIM's response
- Reviews Prudential Risk RATS at least annually and any ad-hoc proposed changes
- Performing detailed oversight of the liquidity and funding, market risk and capital adequacy profile of CAIM, CAB and CABIM including monitoring versus RAS and RATS
- Reviewing the ICAAP and recommending it to the relevant Boards for approval.

## **2.4 Monitoring & Control**

CAIM's approach to capital management is driven by its desire to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times.

Each year CAIM updates its three-year plan in relation to the growth of Assets Under Management.

CAIM also carries out annually a detailed Internal Capital Adequacy Assessment Process (“ICAAP”) to support its capital requirements. Each material risk is assessed through a series of stress testing scenarios, relevant mitigants are considered, and appropriate levels of capital determined. The ICAAP is reviewed by the Asset and Liability Committee (ALCO), and approved by the Board.

CAIM monitors its capital requirements on a daily basis and if surplus capital falls significantly the business would take necessary action to ensure that the minimum regulatory capital requirement is not breached.

At 31st December 2021 and at all times throughout the year then ended, CAIM complied with the capital requirements that were in force.

Risk Reporting is provided periodically to both EXCO and the Board.

## 2.5 Risk Categories

CAIM recognises seven broad categories of risk inherent within its operations:

- Credit Risk - the risk of financial loss arising from a counterparty failing to meet their financial obligations to CAIM in accordance with agreed terms or the non-payment of fees from a client
- Market & Liquidity Risk:
  - Market Risk is the risk that the value of, or net income arising from, CAIM's assets and liabilities changes as a result of changes to market forces, in particular interest rates, exchange rates or equity prices
  - Liquidity Risk is the risk that CAIM is not able to meet its financial obligations as they fall due or can do so only at excessive cost
- Operational Risk - is the risk of financial loss and/or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events including financial crime
- Compliance (including regulatory and reputational) Risk – is the risk to CAIM's reputation of failure to comply with regulatory requirements
- Strategic Risk - the risk which can affect CAIM's ability to achieve its corporate and strategic objectives
- Conduct Risk - the risk of detriment caused to CAIM's customers due to the inappropriate execution of its business activities and processes

## 2.6 Three lines of Defence

CAIM's risk management and control model is based on three lines of defence. The first line comprises the business functions or activities that assume or generate exposure to risk. Risks undertaken or generated within the first line of defence must be compatible with the risk appetite and limits in place.

The first line of defence must have the resources to identify, measure, address and report the risks assumed, to perform its function.

The second line of defence comprises the Risk and Compliance function. This second line of defence is charged with effective control of risks and ensures that they are managed in accordance with the established risk appetite.

Internal Audit is the third line of defence and the last layer of control, and regularly assesses policies, methods and procedures to ensure they are suitable, and also checks they are operational.

The risk and compliance function and the internal audit function are sufficiently separate and independent from each other. They likewise have access to the board of directors and/ or to its committees at the highest level.

### 3. Risk Appetite

Risk appetite is the maximum level of residual risk that CAIM is prepared to accept to deliver its business objectives. CAIM has developed a robust framework that is used to articulate risk appetite throughout CAIM and to external stakeholders.

CAIM's risk assessment process is linked to its RATS; this means that it links qualitative assessments to the overall appetite for risk used in the Risk Appetite and Tolerances Statement. In turn this enables a comparison to be made between risk appetite, and residual risk.

CAIM offers investment management, advisory and custody services that provide clients with the assurance that their funds will be invested with governments and corporates which act responsibly. As a consequence, CAIM is selective about both the products and services it offers as well as its investment decisions.

CAIM's position within its market sector is niche. It focuses on benefiting the markets in which it operates as well as ensuring it remains commercially viable in order to continue to service its clients. As a result, CAIM's over-riding approach to risk is closely controlled. It seeks to provide a market rate of return to its clients while at the same time safeguarding the capital values of assets through careful appraisal of investments made.

CAIM offers investment management products that provide clients with the assurance that their funds will be invested in securities and other assets which are of high quality and, particularly in respect of sustainability, ethics. It looks to optimise returns within its risk parameters and by the expansion of its client base and management of costs.

Investment guidelines tend to restrict the portfolios to investment grade bonds (usually with a minimum A rating) and developed and key emerging equity markets. Investment in any other markets is typically restricted to very low proportions of clients' funds. CAIM only invests client funds.

## 4. Capital Resources

### 4.1 Total Available Capital

As at 31 December 2021, and throughout the financial year then ended, CAIM has complied with the capital requirements requirement as set out by the FCA.

### 4.2 Capital Resources

The table below shows the composition of the CAIM's regulatory capital position, capital requirements and surplus as at 31.12.21 and 31.12.20.

CAIM's capital consists only of shareholder's equity, which itself is comprised of issued share capital and accumulated profits.

As a limited licence firm, CAIM calculates its capital resources requirement as higher of its Pillar 1 requirement, a base of €125,000, and its Fixed Overhead Requirement ("FOR") which is three months (i.e. a quarter) of its annual "fixed overhead" or non-discretionary costs.

If the Company's credit and market risks were higher than the FOR, then this calculation would apply. However, as they are less than the FOR, the FOR applies. Additional capital is required to meet other specific risks which are identified by analysis.

The Company is also required to hold capital to cover Pillar 2 risks, as determined by the FCA or per its own internal assessment.

	31/12/2021	31/12/2020
	£000's	£000's
Regulatory Capital:		
Share Capital	2,150	1,650
Audited Reserves	389	1,034
Total	2,539	2,684
Less: deductions (intangible assets)	(447)	(496)
Total Available Capital	2,092	2,188
Pillar 1	654	800
Pillar 2A	123	150
<b>Total Capital Requirement (TCR)</b>	<b>777</b>	<b>950</b>
CRD Buffer	0	0
<b>Overall Capital Requirement (OCR)</b>	<b>777</b>	<b>950</b>
Pillar 2B	551	551
<b>OCR + Pillar 2B</b>	<b>1328</b>	<b>1501</b>
<b>Surplus over TCR</b>	<b>1,315</b>	<b>1,238</b>
<b>Surplus over OCR</b>	<b>764</b>	<b>687</b>

In 2021, CAIM received a £0.5m capital injection from its parent to support its strategic plan and the expected losses from increased headcount and other investments, designed to strengthen future business growth.

As part of the ICAAP applicable to CRD firms, the Board is required to consider all material risks which CAIM faces and determines whether additional capital is required.

The Board manages its internal capital levels for both current and future activities and documents its risk appetite and capital requirements during stress scenarios as part of the ICAAP.

The ICAAP represents the aggregated view of risk for CAIM and is used by the Board and management to understand the levels of capital required to be held over the near and medium terms. The Board approved the last ICAAP in January 2022, based on figures as at 30 September 2021.

CAIM is required to maintain a certain level of capital to meet several requirements:

- To meet minimum regulatory capital requirements;
- To ensure CAIM can meet its objectives, including growth objectives;
- To ensure CAIM can withstand future uncertainty; and
- To provide assurance to clients, shareholders and other third parties.

CAIM aims to maintain sufficient capital to cover regulatory requirements and to maintain an operational capital buffer.

## 5. Other Risk Categories

### 5.1 Credit Risk

CAIM's exposure to credit risk is low. 92% (2020: 89%) of fund management fees are, as agreed with clients, deducted from funds held. The remaining 8% of fees (2020: 11%) are invoiced to clients.

CAIM's main credit risk relates to funds deposited with its UK based sister company, Crown Agents Bank Limited, a financial institution. Risk weighted assets as at 31 December 2021 were £8,175K, (2020: £10,000k). Credit Risk is calculated using the Standardised Approach resulting in a capital requirement of £1,328k (2020: £1,501k). The only other exposure on CAIM's balance sheet, relates to the purchase of foreign exchange forward contracts undertaken to hedge non-sterling income with CAB.

### 5.2 Market Risk

CAIM does not trade on its account. Any exposure to market risk is related to the value of the clients' portfolios, with a fall in fund values resulting in reduced management fee income. Own funds are not invested in any marketable securities and net foreign currency revenue is hedged using foreign exchange forward contracts.

CAIM's only has an indirect exposure to interest rates, relating to the value of the portfolios managed. When interest rates increase the value of fixed coupon bonds fall and this reduces the value of portfolios holding these securities. Consequently, the management fee will be lower. When fund managers expect interest rates to rise, portfolios are adjusted accordingly to mitigate this risk.

### 5.3 Liquidity Risk

CAIM does not trade in its own name. It acts as agent for its clients and is not exposed to material liquidity risk. It is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario. CAIM's liquidity policy sets an amount it considers suitable for providing sufficient liquidity to meet working capital requirements under normal business conditions. Management fee debts are settled promptly, thus ensuring liquidity resources are available on a timely basis. CAIM's cash position is monitored daily by Finance.

### 5.4 Operational Risk

The most likely types of operational risks are considered to be breaches of client guidelines, buying the wrong security, or buying the wrong amount of a security, and breaching counterparty limits. CAIM has a system in place to monitor pre-dealing checks in relation to investment restrictions. CAIM also has a Levels of Authorities Manual which sets authority levels for all staff to follow, therefore mitigating the risk of unauthorised transactions. Operational incidents (with or without losses) are investigated by Risk Management independently of fund management and reported monthly to EXCO and quarterly to the Board. The number and value of operational risk events is low and have been recorded in compliance with regulatory and internal policies.

A comprehensive Business Continuity Plan has been devised to ensure that operations may be continued with minimum delay in the event that systems on site become unavailable. IT systems are managed with data replication to servers at an alternative location to which CAIM staff have access. The plan is reviewed periodically and tested on annually.

## 5.5 Financial Crime

The majority of CAIM's clients are governments, central banks or public sector entities, and the provenance of funds is known. However, the jurisdictions in which CAIM's clients reside are perceived to be high risk in respect of anti-money laundering and anti-bribery and corruption due to poor or weak legislation and regulation.

CAIM's systems and controls are sufficiently robust to ensure the residual risk is medium. Members of staff receive regular training and regular compliance reviews are undertaken.

A Financial Crime Policy is in place which are reviewed annually by the Board and rolled out to staff. Staff training in relation to Financial Crime issues is mandatory and delivered through face-to-face training and online modules which include tests designed to measure knowledge levels.

## 5.6 Conduct Risk

CAIM follows the Regulators Principles for Businesses and through a framework of policies, procedures, training and compliance testing, conduct risk is managed and monitored to ensure clients are treated fairly.

## 5.7 Regulatory Compliance Risk

As an entity authorised and regulated by the Financial Conduct Authority, CAIM is exposed to compliance risk including the risk of legal sanctions and the risk of material financial or reputational loss that it may suffer as a result of its failure to comply with laws, regulations, code of conduct, and standards of best/good practice. In addition to on-going training and awareness, both the first and second line undertake assurance activity to assess regulatory compliance. Concerns are escalated to EXCO and the Board.

## 5.8 Business Risk

### ***Strategic Risk***

Given the small size of CAIM's operation (total staff of 11, 2020: 12) the loss of a senior fund manager could present a significant risk. Similarly, it is important to retain knowledgeable middle office support staff. The ability to attract and retain appropriately qualified and skilled personnel is a matter regularly reviewed by senior management and the Board.

The company's revenue is a factor of the performance of the existing accounts under management and its ability to add new accounts. The risk posed to CAIM relates to underperformance resulting in a decline in revenue, the risk of redemptions or termination of investment management agreements. The company has built trust with clients, through longstanding relationships. The turnover of clients in recent years has been extremely low compared with the industry. The Company maintains surplus capital to cover the expenses of the business should there be an unexpected redemption or termination.

### ***Poor Investment Performance***

Given the risk averse nature of the majority of portfolio guidelines, and with internal risk budgeting and risk management processes, the likelihood of significant underperformance against the relevant benchmarks is low. Performance is carefully measured, calculated using GIPS methodologies, and the performance of key funds is reported to and discussed by the EXCO and the Board on at least a quarterly basis.

### Concentration Risk

CAIM's revenue is skewed towards a small number of large clients. As part of the ICAAP, the Company includes in its scenario tests the loss of a major client. The company maintains excellent relationships with these longstanding clients and considers the risk to be manageable.

Client income as a percentage of CAIM's revenue by region was as follows:

Region	2021 %	2020 %
Africa	40	46
Caribbean, Atlantic and the Americas	38	34
UK	2	2
Rest of Europe	20	18
<b>Total</b>	<b>100</b>	<b>100</b>

### 5.9 Pension Obligation Risk

At the date of this report) certain of CAIM's staff were members of either or both of:

- A defined benefit pension scheme operated by CAIM's previous parent, Crown Agents Limited (closed to both new members and further accruals).
  - CAIM had historically paid contributions and costs to the scheme as determined by Crown Agents Limited.
  - While the Pensions Regulator can require the CAIM to contribute towards any deficit in the scheme, the length of time over which that contribution needs to be made is not set in stone. The previous parent, Crown Agents Limited, has contractually agreed to take on responsibility for any secondary pension obligation risk in relation to the defined benefit scheme.
- A defined contribution pension scheme operated by CAIM. CAIM has no liability in respect of such a scheme.

## 6. Remuneration

### 6.1 Background

The Remuneration Code was introduced in 2009 and its scope was extended from 1 January 2011 to incorporate the remuneration rules required by the Capital Requirements Directive and the Financial Services Act 2010. CAIM falls into proportionality tier 3 in respect of these disclosures and therefore is not required to apply the rules on retained shares, deferral, and performance adjustment.

### 6.2 Remuneration Policy

CAIM's Remuneration is approved by the CAIM Board. The CAIM Board is responsible for agreeing the over-arching principles and parameters of remuneration across the group. The CAIM Board considers and approves the remuneration arrangements of the executive directors, certain key executives and those discharging key functions. It will exercise oversight of strategic people issues, including employee retention, equality and diversity and significant employee relations matters.

### 6.3 The Link Between Pay and Performance

To reward performance, remuneration within CAIM is made up of fixed (salary or fees) and variable pay (bonuses). Non-executive directors are not entitled to variable remuneration.

### 6.4 Remuneration

The analysis of remuneration payable to Code Staff re the 2021 financial year, split between fixed and variable remuneration, is set out below:

	<u>Senior Management*</u>	<u>Other Code Staff</u>	<u>Total</u>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Total Fixed Remuneration	946	212	1,158
Total Variable Remuneration	217	55	272
<b>Total Remuneration</b>	<b>1,163</b>	<b>267</b>	<b>1,430</b>
Number of Code Staff**	6	2	8

\* includes executive and non-executive directors.

\*\* excludes 9 further code staff not remunerated by CAIM.

No senior management or other code staff were paid more than €1 million. No sign-on payments were paid to code staff. The figures above include severance packages totalling £121K paid to Code Staff.

All remuneration is paid in cash although the fixed remuneration figures above include sundry staff benefits (such as medical insurance and pension contributions). In particular no code staff remunerated by CAIM received remuneration via shares or share-linked instruments. None of the remuneration is deferred.