

Pictet Asset Management Limited Pillar 3 Disclosure

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1. INTRODUCTION

The Capital Requirements Directive (“CRD”) represents the EU’s interpretation and application of the proposals arising from the Basel Committee to provide a framework for the international convergence of capital standards across all European regulated firms other than insurance companies.

The CRD sets out a three pillar framework:

- › **Pillar 1:** Rule-based minimum capital requirements;
- › **Pillar 2:** Supervisory review and the setting of capital requirements for individual firms through the Individual Capital Adequacy Assessment Process (“ICAAP”); and
- › **Pillar 3:** Disclosure requirements.

The disclosures detailed in this document relate to Pictet Asset Management Limited (“Pictet AM Ltd”) and are made as of 29 January 2020.

This Pillar 3 disclosure document explains the basis of preparation of certain capital requirements and provides information about the management of specific risks. The disclosures are not subject to audit, do not constitute any form of audited financial statements and have been produced solely for the purposes of fulfilling the Pillar 3 requirements. These disclosures have been reviewed and approved by the Pictet AM Ltd Board of Directors and are published on the corporate website:

<https://www.am.pictet/en/uk/>

2. SCOPE

The Pillar 3 disclosures in this document relate solely to Pictet AM Ltd. Pictet AM Ltd provides investment management and advisory services to segregated mandates and mutual funds. Ultimately, Pictet AM Ltd is owned by the Partners of the Pictet group.



3. RISK MANAGEMENT OBJECTIVES AND POLICIES

3.1 Business Risk Strategy and Processes

The Board of Pictet AM Ltd is committed to a robust control environment throughout the organisation, is accountable for risk and is responsible for oversight of the risk management process for Pictet AM Ltd. The Board of Pictet AM Ltd regularly reviews the key risks that Pictet AM Ltd faces, and by fully understanding each risk, the associated mitigating actions and the overall control environment, the Board can be comfortable with the management of those risks.

Pictet AM Ltd.'s risk management processes include:

- › **Risk Identification and Assessment:** The Business Risk Map includes key strategic, business and operational risks that Pictet AM Ltd faces. These risks are assessed on a six-monthly basis;
- › **Risk Quantification:** Each key material risk is quantified to determine the amount of capital that may be required, after taking account of actions taken to mitigate each risk; and
- › **Risk Mitigation:** Through the quantification of risks, it is possible to establish whether controls bring the risk to within the risk appetite of the Board of Pictet AM Ltd or not. Where controls do not, actions are taken to further mitigate the risk.

In addition, Pictet AM Ltd conducts a formal capital adequacy assessment based on movements in the Business Risk Map and current market conditions via the ICAAP. Stress tests are performed to ensure that Pictet AM Ltd has adequate capital to withstand a severe market downturn, and also to determine in a worst-case scenario, the capital required to deal with an orderly wind down of the business.

3.2 Governance

The corporate governance structure supports the overall approach to risk management. The main roles of the key governance bodies / committees are as follows:

3.2.1 Pictet & Cie SCA / PAM Holding SA

Pictet & Cie SCA is responsible for the oversight of all of the business lines of the Pictet group. The objectives of Pictet & Cie SCA include:

- › Setting, approving and reviewing the Pictet group's long-term strategy and business plans, including any material changes. This includes ensuring that each individual business line's strategy is consistent with that of the Pictet group as a whole;
- › Receiving and reviewing up to date management information for each business line, covering items such as investment performance and financial information; and
- › Reviewing and approving annual budgets, including headcount, for all business lines, and for the group as a whole.



Within the framework laid down by Pictet & Cie SCA, PAM Holding SA defines the strategy, governance, organisation, structure and general policy of all its direct and indirect affiliated companies that make up the Pictet Asset Management business line, including Pictet AM Ltd. The responsible Managing Partner sits on the PAM Holding SA board and chairs the executive committee.

As part of the oversight of all business lines, senior management representatives present to PAM Holding SA and to Pictet & Cie SCA on a regular basis.

3.2.2 Board of Directors of Pictet AM Ltd

The role of the Board of Pictet AM Ltd is to:

- › Defining the overall structure, the strategy, the objectives, the general policy and implementing principles of Pictet AM Ltd;
- › Ensure maintenance of a sound system of risk management and internal controls; and
- › Ensure that an appropriate compliance and risk management system is implemented.

In order to assist the Board of Pictet AM Ltd in discharging its wider responsibilities, it has established an organisational structure which reflects the nature of the risks across the business. Responsibilities are then allocated to the various functions according to the 'three lines of defence' model as follows:

- › Primary responsibility for managing risks rests with the business functions (e.g. Investment teams, Business Development and Client Relationship teams, Operational teams, etc.);
- › Risk and Control functions (Business Risk & Public Policy, Investment Risk & Performance, Legal and Compliance) are responsible for ensuring that the risk policies and practices are consistent with the risk appetite of the Board of Pictet AM Ltd and are maintained on an on-going basis; and
- › Audit functions have the tertiary responsibility for providing the Board of Pictet AM Ltd with assurance that the business operates effectively in managing its risks.

3.2.3 Risk Committee

The key committee for risk management is the Risk Committee which is supported by the Business Risk & Compliance Committee and the Regulatory Committee. Key responsibilities of the Risk Committee include:

- › To monitor the efficiency, effectiveness and traceability of the internal control system through a review of risk policies, significant errors & breaches and internal audit recommendations;
- › To issue recommendations to the relevant governance boards and management companies on the risk profile of Pictet Asset Management Ltd.'s activities and associated risk appetite;
- › To review exception reporting escalated by the Risk and Control functions; review risk maps, compliance monitoring plans, and internal audit plans; and
- › To review the implementation of the internal control system.



Risks are assessed using a top down and bottom up approach to ensure all areas of business and compliance risks are identified. The Committee assesses, analyses, investigates and escalates all matters which may expose Pictet AM Ltd to unacceptable risk. Risk mitigation is achieved through effective controls taking preventative action where required, strong governance and a risk aware culture.

3.3 Risk Management by Risk Category

Pictet AM Ltd.'s risk management focuses on the main areas of credit, market and operational risk. Pictet AM Ltd has clear risk management objectives and policies to mitigate each category of risk. These include processes to identify, measure, monitor, manage and ultimately mitigate risk.

3.3.1 Credit Risk

Pictet AM Ltd.'s credit risk is its exposure to a counterparty or a group of connected counterparties failing to meet their obligations, including third-party debtors (fee income and other debtors) and intercompany debtors. There is no history of losses in respect of third party debtors, as they are carefully monitored and are low risk by nature. As regards intercompany debtors, these amounts are generally settled as they arise. The key credit risk facing Pictet AM Ltd. is the failure of a counterparty where Pictet AM Ltd.'s operating cash or surplus cash is held.

3.3.2 Market Risk

Pictet AM Ltd does not carry out any principal trading as this is not permitted under its FCA Scope of Permission Notice. In addition, it does not provide any seed capital for products managed or operated by the Pictet group.

Pictet AM Ltd has exposure to foreign exchange risk on foreign currency cash deposits held and management fee accruals that are denominated in foreign currencies.

The Pictet AM Ltd policy with regard to foreign currency cash balances is to maintain sufficient balances in order to be able to pay foreign currency invoices as they fall due but to otherwise convert all foreign currency receipts back into local currency. This is consistent with the Pictet group requirement not to hold non-local currency balances for speculative purposes.

The main foreign exchange risk that Pictet AM Ltd is exposed to is via its fee income, as the much of its fee income is denominated in currencies other than sterling.

3.3.3 Operational Risk

Pictet AM Ltd.'s operational risk is its exposure resulting from inadequate or failed internal processes, people and systems or from external events. Although operational risk is inherent in Pictet AM Ltd.'s investment management activities, Pictet AM Ltd has a low appetite for it. This low appetite is managed through a proactive approach to identifying operational risks and closely monitoring the effectiveness of the controls designed to mitigate and monitor those risks.



4 CAPITAL RESOURCES AND CAPITAL ADEQUACY

Capital adequacy is assessed formally on a regular basis. This involves comparing capital resources with the capital requirement and assessing whether there is a sufficient surplus of capital resources.

Pictet AM Ltd.'s capital resources are made of Tier 1 capital (called up share capital and audited reserves) and Tier 3 capital in the form of a subordinated loan of £10m.

4.1 Capital Resources

As of 31 December 2019, Pictet AM Ltd.'s capital resources amounted to £96.1m. The composition of the capital resources (Tier 1 & 3) are summarised in the table below:

Composition of Capital Resources

DESCRIPTION	AMOUNT (£M)
Share Capital	45.0
Profit & Loss and Other Reserves	51.1
Capital Resources	96.1
Subordinated Loan	10.0
Total Capital Resources	106.1

Source: Pictet AM Ltd

4.2 Capital Adequacy

Pictet AM Ltd maintains sufficient capital to meet its regulatory requirements which are based on the higher of Pillar 1 & Pillar 2 capital requirements.

The adequacy of the capital held by Pictet AM Ltd. is assessed as part of the ICAAP and is subject to formal approval by the firm's Board of Directors.

As of 31 December 2019, Pictet AM Ltd.'s Pillar 1 surplus amounted to £75.8m. The Pillar 1 capital requirement composition is summarised in the table below:

Pillar 1 Summary

DESCRIPTION	AMOUNT (£M)
Credit Risk	10.3
Market Risk	1.8
Sum of Credit & Market Risk	12.1
Fixed Overhead Requirement ("FOR")	30.3
Pillar 1 Capital Requirement (greater of the sum of Credit & Market Risk and the FOR)	30.3
Capital Resources	106.1
Total Pictet AM Ltd Pillar 1 Surplus	75.8

Source: Pictet AM Ltd



The market risk capital component is calculated, in accordance with BIPRU 7.5.3R adopting the standardised method, as 8% of the risk weighted exposures comprised of foreign currency cash deposits held and management fee accruals that are denominated in foreign currencies.

The credit risk capital component is calculated, in accordance with BIPRU 3.1.5 adopting the standardised method, as 8% of the risk weighted exposures comprised of cash deposits, debtors, accrued income and prepayments.

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