Nikko Asset Management Europe Ltd

FCA Reference Number: 122084

Capital Requirements Directive Pillar 3 Disclosure 2017

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1. Overview

1.1 Background

The Financial Conduct Authority's General Sourcebook ('GENPRU') and prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU') rules implement the Capital Requirements Directive ('CRD IV') and the Capital Requirements Regulation, which is the common framework for implementing Basel III in the European Union. These rules are built on three pillars:

Pillar 1: Establishes the Capital Resources Requirement (the minimum capital requirement), which includes Credit Risk, Market Risk and Operational Risk.

Pillar 2: The process for assessing capital adequacy in relation to the actual risk profile and determining whether additional capital is required to cover these risks by the firm's Board of Directors through the Internal Capital Adequacy Assessment Process ('ICAAP') and the subsequent regulator's Supervisory Review and Evaluation Process ('SREP').

Pillar 2A: The additional capital to be held to supplement the Pillar 1 capital requirement against risks not adequately captured in Pillar 1. Together with Pillar 1, it forms the adequate financial resources required under the overall financial adequacy rule (GENPRU 1.2.26R).

Pillar 3: Rules for the disclosure of risk and capital management, including capital adequacy. The purpose of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment process. The disclosures to be made public are for the benefit of the market.1.2. Scope and Application of Requirements.

Nikko Asset Management Europe Ltd is part of a "UK consolidation group" (the "Group") for FCA reporting purposes and in accordance with the provisions of BIPRU 2.2.6G, the ICAAP review and report has been compiled on this basis.

Nikko Asset Management Europe Ltd (FCA Firm No. 122084) (the "Company") was incorporated on 27 March 1984 and is an investment manager and advisor to third parties and other group companies within the Nikko Group and manages and advises on funds and segregated portfolios (collectively, "accounts")

Nikko AM Global Holdings Limited is the EEA parent financial holding company for the "UK consolidation group". The other sister companies in the "UK consolidation group" are Nikko AM Global Cayman Limited and Nikko AM (Cayman) Ltd.

1.3. Basis of Disclosures

This document sets out the Pillar 3 disclosure for the Group. Unless otherwise stated all figures are as at 31 December 2017, the risk management arrangements and approach as applied to the key risks identified.

In terms of regulatory requirements and credit exposures these are backward not forward looking.

1.3. Publication

These disclosures will be made at least on an annual basis. Publication will be on the Nikko AM European website (www.emea.nikkoam.com).

2. The Group' Risk Management Arrangements

2.1 Risk Management Objectives

Risk is an inherent part of the NAM business. Our objective is not to completely eliminate risk but to manage it to an acceptable level whilst balancing risk with reward. Effective risk management assists in the delivery of our strategic objectives; protecting the value of firm by managing potential threats and adding value by enhancing our ability to take advantage of the available opportunities. It also forms a vital element of our capital planning, helping to ensure our business model is resilient and enabling The Group to retain the ability to meet its liabilities as they fall due.

The NAME Risk Management Framework (RMF) articulates the enterprise-wide methodology for managing risk. This framework is supported by the group Nikko AM Risk Management Policy that sets out the objectives, governance, strategy and roles and responsibilities for risk management as established by the Nikko AM Board of Directors. The core objective of the RMF is the consistent identification, assessment, mitigation, monitoring and reporting of risk.

2.2 Our Risk Governance Framework

The NAM risk management framework ensures that risks are being appropriately identified and managed, and that the risks of significant loss or damage to our reputation are being minimised. The framework comprises:

- **Risk appetite** - Sets out the firm's attitude to risk and the ranges and limits of acceptable risk taking.
- **Risk policies** - Define our approach to monitoring and controlling risk, so as to ensure we are only exposed to risks that are within appetite.
- **Risk identification and assessment** - Tools that help managers identify and evaluate the risks to which we may be exposed.
- **Risk management information** - How we report and review ongoing and emerging risks, and assess actual risk positions relative to the risk targets and limits that we set.
- **Risk oversight** - Review and challenge of how we identify and manage risk by the firm.
- **Risk committees** - Management committees are the forums where we review key risks and develop risk management strategies. Subsidiary level committees oversee the management of risks and challenge how the risk framework is working.

2.3 Governance and Oversight Structure

Nikko Asset Management (NAM) is committed to implementing a good risk culture by ensuring the firms governance and risk management framework is appropriate to the size, nature and complexity of the business.

Globally, Risk Management is sponsored by the NAM Board and is a top priority for senior management. The NAM Board is responsible for setting the tone of risk management and for developing an organisation wide risk management strategy.

The Risk Oversight Committee ("ROC") and the Enterprise Risk Committee ("ERC") is appointed by the NAM Board to represent and assist with fulfilling its oversight responsibilities, acting as the highest decision-making body for risk governance matters across Nikko Asset Management (NAM).

Within the European operations, the Nikko Asset Management Europe ("NAME") Board has established a Risk Committee, to assist it in fulfilling its risk oversight and risk management responsibilities.

The purpose of the NAME Risk Committee is to provide governance and oversight of the implementation and maintenance of global business Risk Management Framework.

Where deemed necessary by the Risk Committee, significant risk issues or changes to policy will be presented to the NAME Board or the NAM ROC for ratification.

The NAME Risk Committee's primary roles are to ensure the group business:-

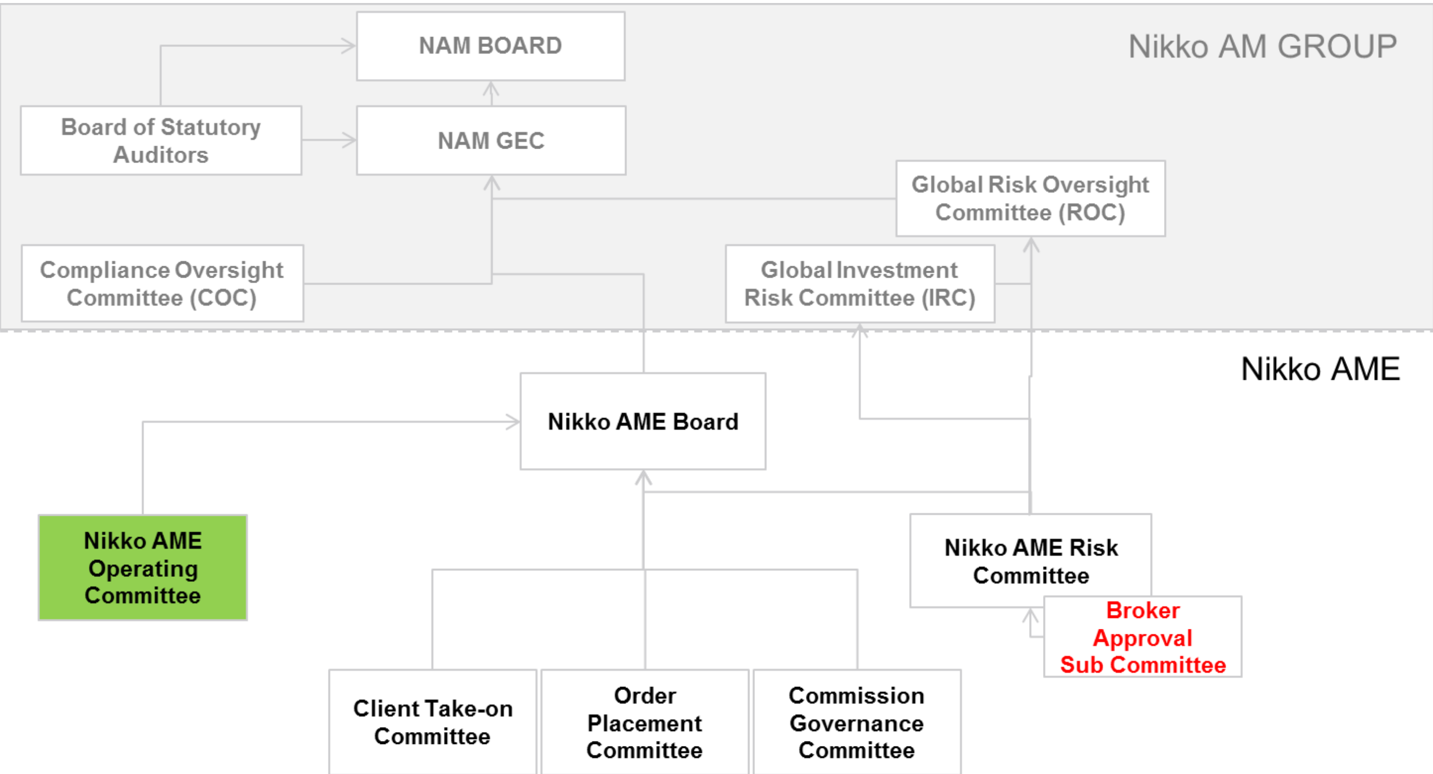
- exhibits the appropriate risk culture within behaviors and actions,
- operates a risk management framework, including policies and processes, that complies with the group policies and standards on risk, legislative and regulatory matters,
- operates the appropriate processes in place to identify, assess, monitor and control all risks within the agreed risk appetite tolerances.

The Committee does not itself actively manage any specific risks. Rather, it has responsibility for ensuring there are appropriate management structures in place to manage the identified risks and issues.

The Risk Committee meets on a quarterly basis and is chaired by the Chief Executive Officer.

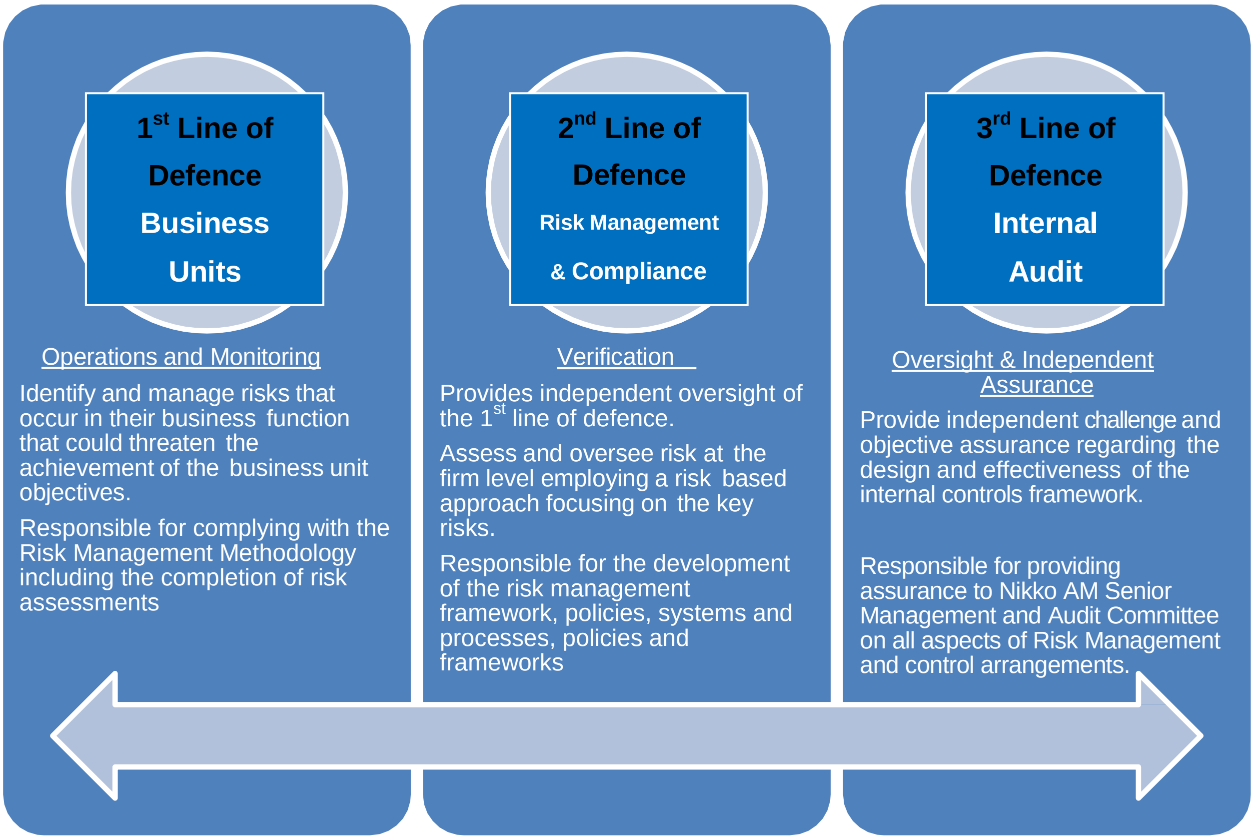
The below structure outlines high level risk governance committee structure across the group, where the green box represented NAME risk committee.

Governance Committee Structure



NAME operates a "three lines of defence model" to assign risk management responsibilities. This model is based on the principle that, to be effective, risk management capability must be embedded in front line teams with independent oversight and assurance. Figure 2 outlines this:

Figure 2: The Three Lines of defence model:



1st line of defence - is its business lines that have responsibility for managing their identified risks through the implementation of a sound set of processes and control. The business lines are also responsible for complying with the Risk Management Framework including maintaining their risk assessments.

2nd line of defence - is a separate assurance function including Nikko AM Limited Board, Risk and Compliance function who undertake a set of monitoring activities on the operation of the 1st line of defence. These activities include; reviews of risk profile updates, ongoing reporting of risk profile development to the Risk Committee and direct challenge of information at the Risk Committees.

3rd line of defence - provides independent assurance and challenge to the Nikko AM Directors and Audit Committee on all aspects of the Nikko AM Risk Management and control arrangements including their design and application.

2.4 Risk Identification and Management

Business managers are responsible for identifying and assessing the risks in their business. An enterprise-wide risk management methodology has been established to support the identification and assessment of risk. 2nd line risk teams facilitate the process of risk identification and assessment and provide objective review and challenge.

It is essential that all risks, events and associated controls are identified to enable their assessment. Mitigation, monitoring and reporting to be effectively performed. The following principles drive the identification process:

- Involves identifying risks, generated internally or externally, that could affect strategy and NAME achievement of objectives.
- Involves generating a list of loss drivers that may give rise to risk crystalisation.
- Involves identifying an inventory of historical internal events associated with the risk that may have a negative impact.

Involves identifying how external factors combine and interact to influence NAME risk exposure. The review of risks is a continuous process, the method of which differs according to the category of risk:

Enterprise risks - These risks relate to factors that may inherently affect the delivery of business strategy or transient and developing matters and issues that require active senior management involvement to ensure that they do not result in loss or reputational damage. The risks are identified through a 'bottom up (business management view): top down (Board view)' review process. The risks are assessed in terms of their impact on the Group's profits, balance sheet, customers, reputation and strategic objectives.

Financial risks – These risks relate to exposures such as market, insurance, credit and liquidity risks. They are inherent to the products or propositions that we provide. Exposures to these risks are identified and assessed using the Product Risk Matrix (PRM), which provides a framework to evaluate the circumstances under which the risks may arise and their relative impact.

2.5 Categorisation of Risk

The Group recognises that it is exposed to a wide range of risks and to ensure that employees and stakeholders can demonstrate a consistent view of what the key risks are and how their management is aligned to the Company's strategic objectives a common risk language is used. Central to this language is the categorisation of risk.

Risk categories relevant to this disclosure are detailed below:

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. The Groups' definition of operational risk includes risks arising from outsourced and critical third party provider relationships, compliance and legal risks and strategic and business risks.

The Group is exposed to numerous types of operational risk which it has further categorised to facilitate meaningful assessment and reporting in accordance with its risk management framework processes.

The Group operates a system of controls which is designed to ensure operational risks are mitigated to the required level. The operation and effectiveness of the controls are regularly assessed and confirmed through the work of the Group's assurance functions: Risk, Compliance and Internal Audit.

As part of regularly updating the Group's Internal Capital Adequacy Assessment Process ("ICAAP"), the Risk function facilitates a series of business wide workshops to gather expert opinion on the key operational risks and to provide an assessment of the future frequency and potential impact of each risk. Senior Management are selected by the Risk function on the basis of their expertise in their relevant business area, knowledge of business process and controls and the specific risk categories under review. The workshops consider a combination of internal and external historical data to determine the severity and frequency of each key risk on both an average and worst case basis. The workshops also consider the internal control environment around each risk and any mitigating actions that would be brought to bear in the event of the risk occurring.

The Group adopts a wide range of control and contingency measures to manage and mitigate its operational risks. The principle control measures in place include:

- Segregation of duties, enforced through IT security access privileges and operational process controls.
- Dealing and payment authorisation levels; dual or triple authorisation procedures and transaction checking controls.
- Recruitment and development of appropriately skilled individuals, with employee objectives set and measured on an ongoing basis.
- Pre-employment screening.
- Segregation and reconciliation across dealing, operations and finance areas.
- Due diligence conducted prior to entering into strategic outsourcing and supplier relationships and on an ongoing basis through a programme of assessment against agreed service levels.

- IT system performance and capacity testing.
- Business continuity and disaster recovery plans which are regularly tested.

Business and strategic risks are also assessed through consideration of capital requirements using stress and scenario testing for relevant risks, including a severe, sustained fall in markets.

Credit risk

The risk of a transacting counterparty defaulting before the transaction's cash flow is ultimately settled. If a transaction with a counterparty has positive economic value at the time of default, economic loss will occur. The group is exposed to credit risk relating to default by its clients, custodians and brokers.

We do not consider that we are materially exposed to this risk as our sales debtors are managed funds and therefore management and performance fees receivable are governed by our agreements with these funds. To mitigate any residual risk of these assets failing to be delivered we ensure that the terms of these agreements in relation to payments of management and performance fees are adhered to by monitoring our aged debtor analysis against the agreed service level agreements. Further, with regard to bank deposits we only deposit money with approved counterparties on agreed terms and have recently diversified our banking relationships to give us increased comfort in this area. Additionally we regularly monitor and review the credit status and ratings of our respective counterparties to ensure that we have adequate oversight over our exposures, and the exposures of our clients, to them.

Market risk

Market risk is the risk that market conditions lead to a decline in the value of Group available-for-sale financial assets. Further, in the event of market conditions adversely affecting clients' assets under management (AUM), fees earned from those AUM would reduce.

In defining market risk (or systemic risk) as that which is common to an entire class of assets or liabilities whereby their value can fluctuate simply because of economic changes or other events that impact large portions of the market, we consider we have no material exposure to market risk as the assets we manage are held by and for the benefit of those fund holders through separate legal entities.

Any foreign exchange risk on our fees receivable and payable. The Group mitigates this risk through the effect of natural hedges i.e. holding financial assets and liabilities of equal value in the same currency; by limiting the net exposure to an individual non-base currency; and by entering into hedging instruments such as foreign exchange contracts, which are primarily used to hedge available for- sale financial assets.

Liquidity Risk

The risk that the Company, although solvent, either does not have sufficient available resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The Group is exposed to liquidity risk in respect of payment obligations to its clients and product providers and the settlement timing of corresponding cash inflows and outflows.

The Group conducts stress testing against a range of potential liquidity risk events and scenarios on an ongoing basis as part of its liquidity risk management process.

Reputational Risk

The risk of direct or indirect loss arising from damage to the Company's reputation. The Group considers that reputational risks exist as the potential outcome of risks occurring within other risk categories (such as operational or liquidity risks) and do not exist in isolation. The identification and mitigation of reputational risks is therefore managed through the Group' risk management framework processes for managing those other risk types.

3. Capital Resources and Requirements

3.1 ICAAP

The Group's Internal Capital Adequacy Assessment Process (ICAAP) methodology is designed to capture the key risks faced by the business under Pillar 2. Taking the FCA's BIPRU Rules and Guidance as a starting point, the key risk types defined therein have been assessed for relevance and appropriateness to the Group business model. The Group's policy is to review its ICAAP methodology at least annually. Reports are prepared on an annual basis for the Board, giving an assessment of the amounts, types and distribution of capital resources that the Group considers appropriate for the nature and level of risks to which it is or might be exposed.

Each other risk exposure identified that would cause potential future capital losses is considered and measured accordingly using a mixture of relevant Internal and external data. For those risks that would cause either reputational damage or reduce future revenue, rather than causing an immediate capital loss to the Group, assessment has been made through downside stress and scenario testing of the impact on Group financial forecasts.

The ICAAP also considers the Group's long term capital outlook, along with a downside scenario, a process which is incorporated into the Group's annual budgeting process and reviewed by the Board. In addition, it considers a wind-down analysis which looks at whether the Group would be required to hold additional capital over the period that it would take to wind up the Group.

3.2 Capital Resources Group Level

Current Distribution of Capital – Group Level	
	*(£) 000's
Permanent Share Capital	11,088
Profit and Loss account and other reserves	42,491
Total Tier 1 Capital	**53,580**
Tier 2 and 3 capital	429
Consolidated Capital Resource Requirement	**4,410**
Surplus	**49,598**

**Figures were converted from JPY to GBP as of the 31st March 2017*

On a group basis our capital resources comprise share capital and audited reserves of £53,580k and additionally Tier 3 capital of £429k which represents a subordinated loan from the immediate parent company to Nikko AM Global Holdings Limited. Therefore, our total capital resources on a group basis are £54,009k.

3.3 Capital Requirement UK level

Nikko UK Consolidated Group	
	**(£) 000's
Credit Risk	2,804
Market Risk	2,316
Sum of Credit and Market Risk **(A)**	**5,120**
Fixed Overhead Requirement **(B)**	**3,339**
Pillar 1 Requirement (higher of A or B)	**5,120**

***Figures are from the 31st March 2017*

The value of share capital, share premium and audited reserves is £39,676k as at 31 March 2017 on a solo basis. Our capital resources comprise core Tier 1 capital only and therefore there are no other items or deductions.

The group' Pillar 2 capital requirements is calculated in accordance with the Company's ICAAP. This includes an assessment of the adequacy of capital resources to support current and future activities and to cover the key risks faced by the business, including relevant stress scenarios, on a going concern basis and also the costs and capital requirements that would be required in the event that an orderly wind down of the Company was necessary. The ICAAP is reviewed and approved at least annually by the group Board.

4. Remuneration Policy and Practices

The FCA's Remuneration Code (the "Code") was implemented with effect from 1 January 2011.The Code requires the firm to identify individuals whose professional activities have a material impact on its risk profile (known as "Code Staff") and the Code requirements and underlying disclosures, subject to any applicable proportionality requirements as a Tier 3 firm, apply to those individuals.

Code Staff are defined with reference to managerial responsibility to influence the firm's overall risk profile. At the discretion of the Board, other employees may be included as Code Staff if they consider that their role has a material impact on the firm's risk profile. An annual review of the firm's risk profile is conducted by the CEO with advice from Compliance and agreed by the board of directors to determine the Code Staff population and a record is maintained by HR.

Due to the size of the Company, we do not consider it appropriate to have a separate remuneration committee. Instead this function is undertaken by the Executive Directors and is subject to supervision and review and approval of the senior management of Nikko Asset Management Co., Ltd. ("NAM Tokyo"), the intermediate parent controlling 100% of the shares in the Company.

Aggregate Quantitative information on remuneration

For the financial year ending 31 March 2018 19 employees are designated as Code Staff. The roles included are principally executive and non-executive directors for the Company who are remunerated by the Company, employees who exert significant influence as senior managers in the running of the company and determine the firm's risk profile, risk takers, control functions and those employees receiving total remuneration which takes them into the same remuneration bracket as senior managers and/or risk takers.

The aggregate annual remuneration of Code Staff is £6,282,236 for the period ending 31 March 2018. This is made up of fixed pay £3,767,836 and variable pay £2,514,400.00.