JLT Investment Management Limited

Pillar 3 Disclosures

Introduction

These disclosures are made in order for JLT Investment Management Limited ("JLTIM")(the "Firm") to comply with the Financial Conduct Authority rules which implement the Capital Requirements Directive of the European Union which came into effect on 1 January 2007. This created a regulatory capital framework across the European Union, based on the provisions of the Basel II capital accord.

The Capital Requirements Directive consists of three pillars:

- Pillar 1: minimum capital requirements for credit, market and operational risk;
- Pillar 2: supervisory review process in which a view is taken on whether additional capital needs to be held for risks not covered by Pillar 1; Identify which managers will be involved and target Training and Competence accordingly;
- Pillar 3: disclosure requirements which enable the market to assess information about our risks, capital, risk management processes and remuneration policies.

The Financial Conduct Authority's rules governing the Pillar 3 disclosures are set out in chapter 11 of the Financial Conduct Authority's Prudential sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

JLTIM, the Firm to which these disclosures relate, is a wholly owned subsidiary of JLT EB Holdings Limited and its ultimate parent is Jardine Lloyd Thompson Group plc. (JLT Group). JLTIM is the only JLT Group entity within the scope of BIPRU and is categorised as a limited licence BIPRU firm. In accordance with BIPRU 8 Annex 1, JLTIM is not part of a UK Consolidation Group and therefore these disclosures are made on a solo basis.

These disclosures will be made at least annually and will be published on the JLT Investment Management Website website (www.jltim.co.uk)

The accuracy of JLTIM's Pillar 3 disclosures is the responsibility of the Firm's Board. These disclosures have been reviewed by the Firm's Board but are not subject to independent audit.

Risk Management Framework

JLTIM is part of the Jardine Lloyd Thompson Employee Benefits Group (JLTEB).

JLTIM has a robust governance structure characterised by defined reporting lines and its risk framework is considered by the JLTIM Board to be proportionate to the size, nature and complexity of the Firm's business. Senior management have identified the management of risks as a critical issue for the Firm and the JLTIM Board is responsible for identifying, considering and taking appropriate action to reduce risks and thus ultimately to reduce the potential financial impact of such risks. The Board recognises that the ability to achieve its strategic objectives is enhanced by having a clear and articulated statement of its risk appetite that fully aligns risk-taking with these goals. The Board considers that such a statement provides an improved platform for effective growth and helps ensure that risk-taking adds value by promoting acceptable behaviours within understood tolerances.

The JLTIM Board maintains a risk register that is kept up-to-date and feeds into the Internal Capital Adequacy Assessment process ("ICAAP") to ensure risks are effectively managed and mitigated and sufficient capital continues to be held both for business as usual activities and also when developing new business streams.

JLT operates under a three lines of defence model. The second line, Group Risk and Compliance (GRC), is responsible for ensuring that the business operates in a manner that is compliant with its regulatory obligations. The EB Compliance Advice and Oversight team is responsible for providing oversight and guidance to the EB businesses, including JLTIM, on its regulatory obligations. There is also a Compliance Monitoring Team, which will conduct periodic assurance work. The Risk function is responsible for the overarching risk management framework for the JLT Group and works with the business and the Compliance Advice and Oversight Team to ensure that risks are managed in accordance with the framework in place.

The JLT Group maintains an Internal Audit function. As part of that function, there are resources dedicated to the EB business which perform a programme of risk based audits that are agreed on an annual basis by the Group Audit and Risk Committee. All findings (from each of the layers) will be reviewed by the JLTIM Board to determine if the current risk appetite is being met and/or where changes to the risk appetite statement or the Firm's business strategy need to be made.

Capital Resources

As a limited licence BIPRU firm, JLTIM's overall minimum capital resource requirement under Pillar 1 is the greater of:

- Credit Risk + Market Risk, and
- Fixed Overhead Requirement

The table below sets out the Firm's Tier 1 capital structure as at 30 June 2015:

30 June 2015 Data (£ 000s)	JLTIM
Net assets	10,759
Total gross income	4,975
Total expenditure	2,742
EBIT	2,233
Profit (loss) after tax & dividend	2,317
Tier 1 capital	9,867
Tier 2 capital	0
Tier 3 Capital	0
Deductions	0
Total regulatory capital available	9,867
Fixed overhead requirement (FOR)	739
Operational risk requirement	1,388
Credit risk requirement	903
Business risk requirement	646
Market risk requirement	0
Total Pillar 1 capital requirement	903
Additional Pillar 2 capital requirement	2,034
Total regulatory capital requirement	2,937
Regulatory capital surplus	6,930

Key steps used in the ICAAP to quantify risks and establish the regulatory capital requirement include:

- Identifying material risks and assessing the inherent impact and probability or likelihood of occurrence;
- Determining the net exposure to the risk, through an evaluation of the effectiveness of existing mitigating factors, then considering the management response actions;

- Aggregating the net impact values to determine the Pillar 2 regulatory capital requirement, then comparing this to total Pillar 1 requirement.

Review of Potential Risks

Credit Risk - the current or prospective risk to earnings and capital arising from an Obligor’s failure to meet the terms of any contract with the institution or its failure to perform as agreed.

JLTIM's exposure to this risk category mainly relates to:

- Short term deposits held with high street banks
- Fees accrued or invoiced, but not received.

The Firm's exposure to credit risk arises from the default of the bank with a maximum exposure equal to the carrying amount of the instruments. Treasury related matters are dealt with by JLT Group treasury function whose role it is to implement the JLT Group’s treasury policies and strategies. It reports cash flow movements and forecasts on a daily basis to senior management and material transactions are referred to the JLT Group Director of Finance for approval. Throughout the year cash balances are aggregated in the holding company and invested overnight in the money markets. The JLT Group further manages its credit risk by ensuring that counter-party banks/institutions approved for use by JLT Group offer high financial security.

The Firm's clients are predominately retail with some professional who are all vetted appropriately through due diligence and client take on procedures. The Firm does not have significant concentrations of credit risk. The Group only trades with recognised, creditworthy third parties. Trade receivables are non-interest bearing and are generally a maximum of 30 days terms. Customers are not permitted to trade on credit terms. In addition, receivable balances are monitored on an ongoing basis with the result that the Firm's exposure to bad debts currently is not considered significant. For the purposes of calculating credit risk requirement at Pillar 1, the Firm uses the standardised approach.

Market Risk - the current or prospective risk to earnings or value that arises from adverse movements in equity and commodity prices, interest and/or foreign exchange rates. The Firm is a limited licence BIPRU firm by virtue of its permissions notice, and as such it only deals as agent for its clients and does not take principal positions. Therefore the Firm does not have market risk in relation to its own assets or principal positions.

Operational Risk - the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. For operational risk measurement purposes, this definition includes legal/compliance risk/financial crime risks, which is the risk of loss resulting from a failure to comply with laws, contractual obligations and prudent ethical standards. The definition also includes the exposure to litigation from all aspects of the firm’s activities.

Reputational risk will be treated as a consequence of the crystallisation of other risks, rather than an independent risk. As such, reputational risk is also covered under operational risk.

As a limited Licence BIPRU firm, JLTIM is not required to hold capital in respect of operational risk at Pillar 1 and has not done so. However, in assessing risks for Pillar 2 appropriate consideration has been given to operational risk. Areas considered include (but are not limited to): Key Man risk; misappropriation of assets/maladministration; transactional errors; regulatory risk; significant market fall; underperformance against industry benchmarks; and the loss of a key distributor.

Operational risks are managed through sound internal control, governance and a risk management framework to manage risk proactively.

Liquidity Risk - the current or prospective risk to earnings and capital arising from an institution’s inability to meet its liabilities when they become due.

Due to the relatively low level of exposure in this area and the quality of institutions used, this risk is not considered material and no specific contingency has been identified as requiring to be held in respect of liquidity risk.

Strategic Risk - the risk that one of the Firm's business streams is disrupted because of trading issues experienced by a key distributor. In order to mitigate the impact of this risk the business has been diversified to include a service to both retail and institutional clients.

Group Risk - the risk that the failure of the JLT Group or a significant event impacts the operations of JLT IM. The JLT Group is a diverse business with multiple business lines and an extensive client base, which mitigates the impact of this risk.

Business Risk - the risk to the Business that can arise due to fluctuations in business cycles and economic conditions over time. Risks considered include: The risk of market decline on portfolios under management; over reliance on transactional income; underperformance of funds and loss of mandates; failure of business outsourcing arrangements. All these risks have been considered in detail and appropriate mitigators are in place where possible to reduce the potential impact of these risks. Scenario analysis has also been undertaken to test the Firm's ability to withstand significant adverse business risks that are beyond its control.

Regulatory Risk – the risk of financial penalty or reputational damage through the failure to observe the relevant regulatory requirements. The main area of regulatory risk for JLTIM lies within the retail discretionary management service. However due to the strong control framework in place, this risk is not considered material.

Concentration Risk - the Firm considers that any specific exposure due to sectoral, geographic, liability and asset concentrations is likely to relate to the assets the Firm manages on behalf of Its clients and that this is already captured under Business Risk above.

Insurance, securitisation and interest rate risks - JLTIM does not undertake these activities and as such does not face these risks.

Residual Risk - JLTIM recognises that Residual Risk is inherent within all business but believe that all material risks have been captured above.

Stress and Scenario Testing

To ensure that the Firm's capital efficiency is sufficiently robust to withstand adverse macro-economic conditions, management have identified the key risks to which JLTIM is exposed and have analysed the individual and aggregated impact of several severe but plausible scenarios including global events and experiences outside the control of the Firm, both in the immediate (1 year) and longer (5 year) term. Management have evaluated the Firm's capital adequacy under each of these scenarios to ensure that under such severely distressed conditions, the Firm would still be able to meet its capital requirements.

Following the Firm's assessment, the following key areas were tested:

- A sustained drop in stock market levels;
- Material underperformance against industry benchmarks;
- Key Man risk;
- Misappropriation of assets / maladministration;
- Transactional error;
- Failure of the JLT Group;
- Loss of a key distributor

In all of the scenarios tested it was concluded that current capital levels were significantly in excess of the identified risk capital requirement both at current levels and after the application of stress testing.

December 2016