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# OMAM UK Group Limited

## Pillar 3 disclosure



### 1. Introduction

The Capital Requirements Directive (CRD) is the framework for implementing Basel II in the European Union. Basel II implements a risk sensitive framework for the calculation of regulatory capital. In the United Kingdom, the Directive has been implemented by the Financial Services Authority ('FSA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The FSA framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk;
- Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FSA as part of its supervisory review and evaluation process (SREP) visit. Pillar 2 is also known as the Internal Capital Adequacy Assessment Process "ICAAP"; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The rules in BIPRU 11 set out the provisions for Pillar 3 disclosure. Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim 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 processes. The disclosures are to be made to the market for the benefit of the market.

### 2. Background of the firm

Old Mutual Asset Managers (UK) Limited (OMAMUK), and Old Mutual Fund Managers Limited (OMFM), together referred to as the "Group", are 100% subsidiaries of OMAM UK Group Limited, a UK Integrated Group, ultimately owned by Old Mutual plc, a Financial Conglomerate. OMAM is classified as a full scope BIPRU 730K firm under the CRD, and OMFM is classified as outside the scope of CRD. OMAM Group is not subject to consolidated supervision.

OMAMUK is a specialist investment firm focused exclusively on asset management. Based in London and regulated by the Financial Services Authority, OMAM is part of a FTSE 100 company, Old Mutual plc, a leading international long-term savings group.

We manage GBP 4.2 billion (31 March 2010) in equity, fixed income and alternative investments for institutional and retail clients in a range of UCITS funds, hedge funds and segregated accounts.

Our investment approach is based on our view that talented managers will achieve strong returns for clients if they have the appropriate freedom to use their own proven processes. We do not impose a single house style or view on our investment teams, but instead allow them a high degree of independence whilst ensuring that they work within our robust risk management and compliance framework.

### 3. Governance

The Board of OMAM UK Group Limited is the governing body ultimately responsible for the risk management regime. Day to day risk management responsibilities are delegated by the Board to the Risk & Governance Committee which meets monthly. Core membership comprises the Chief Executive (CEO), the Chief Risk Officer (CRO), and senior managers within the business. This Committee reports to the Board on any significant internal control failures that have occurred and on the quality of internal

policies, disciplines, controls, processes and monitoring procedures in place to deal with risk, making recommendations for improvements where applicable.

## 4. Risk management framework

Risk is an independent team which reports directly to the CEO. It is responsible for the design and implementation of risk management frameworks within the business, both in respect of investment risk and enterprise risk.

The investment risk team uses RiskMetrics to support its risk management disciplines, reviewing the validity of the model using daily data, conducting trend analyses, scenario analyses and stress tests. OMAM (UK)'s CEO chairs a quarterly risk and performance meeting for each investment strategy. The meeting is attended by the portfolio managers, the CRO, and other members of the investment risk team and EMT. The investment risk team meets formally with each discretionary portfolio manager once a month, aside from the months when a quarterly review meeting takes place.

OMAM (UK)'s enterprise risk management framework is based on three lines of defence:

1. Risk management and control.
2. Risk oversight.
3. Independent assurance.

This entity-wide approach is used to manage potential risks that may prevent the company from achieving its objectives. We continuously identify and rate internal and external risks, and propose risk-mitigation controls. Each risk is rated according to its impact and probability, at both an inherent level (before any controls are considered) and at a residual level (after the mitigating effects of controls). The primary risks are reported to the Board each quarter. The CURA system, an online application, is used to record risks and risk assessments.

The key risks to the business are considered to be investment performance, adverse market conditions, and loss of key staff. These risks are managed through diversity of the product and client range, and through ensuring that remuneration packages and culture remain competitive and attractive.

### 4.1 Compliance

Compliance is primarily responsible for supporting the business to ensure that OMAM (UK)'s activities are conducted in accordance with all regulatory and client requirements. This is partly achieved through the existence of a risk based monitoring program. This program, which is updated quarterly, sets out the monitoring reviews to be undertaken and ensures that Compliance resources are focused on the areas perceived to be of greatest risk. This process involves looking at the likelihood of incidents occurring in each area of the business and the impact the incident would have from a financial, regulatory and reputational view. Controls and procedures used to mitigate risk are taken into consideration when calculating which areas should be focused on each quarter. Compliance issues reports to members of the Risk and Governance Committee and to relevant senior management. They monitor recommendations to ensure they are followed up and implemented as appropriate.

Whilst portfolio managers are required to manage their funds in accordance with investment restrictions and guidelines as stipulated by mandates or regulatory bodies, much of the monitoring to confirm adherence to requirements is conducted via the compliance function within OMAM (UK)'s order management systems, Charles River and thinkFolio. These provide real-time pre-trade and end-of-day compliance monitoring capabilities. On a daily basis, Compliance reviews any potential breaches in investment restrictions and escalate as appropriate.

Compliance maintains specific policies and procedures in relation to employee conduct, which are contained within either the Compliance Manual or specific policy documents. All employees are required to sign a statement that they have received and read the compliance manual on joining the company.

### 4.2 Group internal audit

Old Mutual plc operates a Group Internal Audit function focusing on the risks and controls surrounding key processes within each of the Old Mutual business units. Internal Audit conducts annual reviews of key aspects of the OMAM (UK) business and report findings directly to management. Any significant issues are also reported by Internal Audit to the Old Mutual Group Audit Committee.

Management are required to respond to proposed recommendations in a timely manner and implement these recommendations as required. Compliance monitors progress of the recommendations against pre-agreed timelines and outstanding items are reported to and reviewed by the Board.

## 5. Capital resources

The Group's consolidated capital resources comprise the following:

	31 December 2009 (£'000)
Share capital and retained earnings	34,443
<b>Total Capital Resources</b>	<b>34,443</b>
Pillar 1 requirement	10,482
Pillar 2 additional requirement	3,118
<b>Total Capital Requirement</b>	<b>13,600</b>
Surplus Capital	20,843
Solvency ratio	253%

*The numbers noted above are at 31 December 2009, the date of the last audited annual set of financial statements.*

## 6. Capital adequacy and risk categories

The Group's Pillar 1 requirement as at 31 December 2009 is £10.5 million, determined as the higher of the sum of operational risk, credit risk and market risk capital requirements. The Group also calculates a Pillar 2 requirement resulting from its Internal Capital Adequacy Assessment Process (ICAAP), as required by the FSA for establishing the amount of regulatory capital to be held by the company to withstand the materialisation of a series of risks even resulting in a winding up of the company, ensuring protection of client assets. The ICAAP draws from the Group's enterprise risk management framework and gives consideration to the current and forecast projected financial and capital positions. The ICAAP is updated through the year to take into account any significant changes to business plans, or risk measures. The ICAAP is reviewed by the Board at least annually. Capital adequacy is monitored daily by management on an exception basis.

### 6.1 Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

The majority of the risks affecting the Group can be classified as operational risks and therefore most of our risk management efforts are focused on operational risk. The Group seeks to mitigate operational risk to acceptable residual levels, in accordance with its risk appetite policy, by maintaining a strong control environment, which is managed through the Group's operational risk management framework, as set out in section 4. The Group also has insurance arrangements in place to mitigate operational risks.

### 6.2 Credit risk

Credit risk is the risk of financial loss arising from a client or other counterparty failing to meet its obligations to repay outstanding amounts as they fall due.

The Group is not exposed to high levels of credit risk, as it does not undertake any principal trading in relation to its own balance sheet, other than placing cash on deposit. The Group only places cash out on deposit with a select list of highly rated counterparties. For fee debtors in our retail funds, the risk of not receiving sums due to us is mitigated as we have the ability to cancel units that have been allocated but have not been paid for. For segregated fund clients, provision for the non-payment of fees is governed by our agreements with these clients.

The Group applies the rules within BIPRU 3 Standardised Credit Risk to calculate an appropriate capital requirement for its credit risk exposure.

### 6.3 Liquidity risk

Liquidity risk is the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. Liquidity risk within OMAM could manifest itself in five different ways:

- i. Risk of bank counterparty not honouring a deposit obligation;
- ii. Counterparty risk exposure from a client or fund not being able to pay fees;
- iii. Risk of the company paying trustees for creation of units ahead of receipt of client subscription;
- iv. Risk of a significant or unplanned corporate expense, such as a litigation or compensation claim;
- v. Risk of the company becoming loss-making and draining cash resources.

The Group pro-actively manages its activities and market relationships with the objective that specific credit or liquidity issues are unlikely to arise. The Group has a liquidity policy to ensure it maintains sufficient liquid assets to meet the expected cashflow requirements of its businesses. To ensure customer and counterparty confidence, the firm will hold sufficient liquid assets to meet liquidity pressure resulting from unexpected circumstances.

### 6.4 Market risk

Market risk arises from adverse changes to the values of positions or portfolios arising from changes in market prices, interest rates or exchange rates.

As noted previously, the Group does not undertake any principal trading for its own account. As a result, it is not exposed to any significant market risk which would arise from such. The Group's revenue, however, is affected by the value of assets under management.

The Group earns interest from its cash balances, and is therefore exposed to fluctuations in interest rates.

The Group aims to minimise exposure to this risk through active management of cash deposits with a range of depositories and over different time periods.

The Group has some exposure to foreign currency resulting from fee income due from currency share classes and also from an element of cash at bank. Such exposures are fairly short-term but, where they do arise, a market risk requirement (foreign currency position risk requirement) will be calculated.

At any time, there will also be a small exposure to market risk in OMFM on positions held in the manager's box. Such positions are relatively small but, where they exist, an equity position risk requirement will be calculated.

## 7. Solvency

The Company has a strong capital base at 31 December 2009 of £34 million with net assets largely in the form of cash and liquid assets. Based on the Company's ICAAP, the Company has a strong solvency ratio of greater than 250% which is expected to be maintained for the foreseeable future in accordance with its three year business plan forecasts.