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 (OMAM), 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 Limited Licence Investment firm under the CRD, and OMFM is classified as outside the scope of CRD. OMAM Group is not itself subject to consolidated supervision, but is part of the wider group under Old Mutual UK Holdings Limited, which is subject to consolidated supervision. Limited Licence Investment firms are defined in BIPRU 1.1.12 as those firms not authorised to deal on their own account or provide investment services of underwriting or placing financial instruments on a firm commitment basis.

OMAM 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 4.5 billion (31 March 2011) 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.

Old Mutual Asset Managers (UK) Limited
2 Lambeth Hill
London, EC4P 4WR, UK

www.omam.co.uk
+44 (0)20 7332 7500

This Committee is a sub committee of the Board. Core membership comprises the Chief Executive (CEO), the Chief Risk Officer (CRO), the Director of Sales & Marketing 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 developed a proprietary framework for risk analysis and reporting. VaR calculations and all the relevant analytics are supplied by Bloomberg. Trend analyses, scenario analyses and stress tests are performed and all those metrics are regularly reviewed assessing the validity of the model. OMAM'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; and
3. Independent assurance.

OMAM has adopted the Old Mutual plc 'Enterprise Risk Management Framework Policy and Escalation'. The Framework Policy is a sophisticated risk management policy which has been adopted by the Risk & Governance Committee and establishes a program for developing a comprehensive approach to assess and address risks from all sources, internal and external, that threaten the achievement of OMAM's strategic and business objectives.

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'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's order management system, 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 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 2010 (£'000)
Share capital and retained earnings	37,849
Total Capital Resources	37,849
Pillar 1 requirement	6,743
Pillar 2 additional requirement	3,257
Total Capital Requirement	10,000
Surplus Capital	27,849
Solvency ratio	278%

The numbers noted above are at 31 December 2010, 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 2010 is £6.7 million, determined as the higher of the sum of credit risk and market risk capital requirements and the fixed overhead requirement. 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 2010 of £38 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.

8. FSA Remuneration Code

The FSA has published CP10/27 ("Implementing CRD3 requirements on the disclosure of remuneration") which describes how it expects disclosures in relation to remuneration to be made by asset managers (and all other firms that fall under the Capital Requirements Directive "CRD").

Underlying these recommendations is the view that stakeholders will benefit from greater clarity regarding firms' remuneration practices, and in particular how these practices support effective risk management.

The Remuneration Code seeks to do this in a number of ways, including but not limited to, the requirements that firms:

- have remuneration policies which do not encourage excessive risk taking;
- ensure that where remuneration is performance related, a significant part of the performance assessment process includes consideration of non-financial performance metrics, including adherence to effective risk management and compliance procedures and practices. Where Risk and Compliance have concerns about the behaviour of particular individuals or the riskiness of the business being undertaken, these functions will provide input into the performance assessment process before the Remuneration Committee sets individual remuneration awards;
- do not pay guaranteed bonuses unless they are exceptional, occur in the context of hiring new staff, and are limited to the first year of service; and
- ensure that employees do not use personal investment strategies to undermine the risk alignment effects embedded in their remuneration arrangements.

Old Mutual Asset Managers is regarded as a 'proportionality tier four firm. Its remuneration disclosure (below) is in accordance with the FSA's guidance for tier four firms.

8.1 Decision making process used for determining the Remuneration Policy

The firm has a Remuneration Committee, a sub committee of the Board, which reviews the firm's remuneration policies and meets regularly to consider human resource issues relating to terms and conditions of employment, remuneration and retirement benefits. Within the authority delegated by the Board, the Remuneration Committee is responsible for approving the remuneration policy and in doing so takes into account the pay and conditions across the firm. This includes the terms of bonus plans and the individual remuneration packages of all staff, including Directors, senior employees, and all staff in positions of significant influence and those having an impact on our risk profile (Code Staff). The Remuneration Committee, as a sub committee of the Board, ensures alignment with business strategy, objectives, values and long-term interests. The remuneration policy is subject to review by the Risk & Governance Committee before it is taken to the Remuneration Committee, to ensure that the policy aligns with the firm's risk management objectives and perceived conflicts of interest.

OMAM's shareholder is represented on the Remuneration Committee and the Board, as Chairperson and 'A' Director. The Remuneration Committee also includes the Chief Executive, the Chief Risk Officer, and the Director of Sales & Marketing. The Head of Finance also attends Remuneration Committee meetings as Company Secretary.

OMAM has developed its remuneration policy in conjunction with the Risk & Governance Committee, a sub committee of the Board. OMAM will review this policy at least annually and sooner if further FSA guidance is received with respect to limited licence BIPRU firms or policy amendments, best practice notifications or recommendations.

8.2 Link between pay and performance

The Company views pay and performance as inherently linked, driving stable performance for the Company through its performance management system. Performance is measured based on objectives set for each individual at the start of a calendar year. A performance rating is rewarded on the basis of achievement of personal objectives during the year. Individuals must also display behaviours most appropriate to the role that they are performing.

Employee remuneration comprises a market-based salary, a bonus and various other fixed benefits, according to individual status ranking in the firm. Salaries and total remuneration are benchmarked against relevant asset management industry surveys to ensure they are aligned to the market place and fairly reward employees in view of skills provided, work performed and responsibility undertaken.

OMAM has three incentive schemes in place; a fund manager bonus scheme, a pre-agreed contract linked to a combination of revenue, fund performance and non financial performance metrics; a sales bonus scheme linked to a combination of gross and net sales achieved, and non financial performance metrics; and a general bonus pool, which is a purely discretionary pool calculated as a percentage of pre-bonus profits and allocated to individuals based on the achievement of pre-agreed performance objectives (non financial measures).

If employees receive variable remuneration over a minimum threshold, a formulaic portion of the amount they receive is subject to deferral. The deferral mechanism is a key risk management and retention tool to key senior managers and Code Staff and applies to all variable remuneration schemes. A deduction may also be made directly to a participant's share of the pool in respect of any compensation the company is required to pay to any of the funds as a result of portfolio errors wholly attributable to the relevant participant. Any such deduction or decisions over the discretionary element of the bonus would be wholly at the discretion of the Remuneration Committee.

8.3 Aggregate quantitative information on remuneration

OMAM's Board considers that there is only one business area, which is investment management including the associated distribution and platform areas. For 2010, total fixed remuneration was £10,286,000, and total variable remuneration was £6,660,000 (of which £565,517.61 was deferred).

OMAM have identified 11 persons as Code Staff in 2011 including leavers and joiners. Code staff were paid £2,332,200 in fixed remuneration in 2010 and £1,665,132 in variable remuneration (of which £216,119 was deferred). The 2011 amounts will be published as Pillar 3 disclosure at the end of March 2012.