

# SIT SAVINGS LIMITED

## Pillar 3 Disclosures

FRN: 125495

As at 31 December 2018

### I. Background

SIT Savings Limited (the "Firm") is authorised and regulated in the UK by the Financial Conduct Authority (the "FCA") and is classified as a Collective Portfolio Management Investment Firm ("CPMI") and a BIPRU firm.

The Pillar 3 disclosure requirement stems from the UK's implementation of the Capital Requirements Directive ("CRD") which represents the European Union's application of the Basel Capital Accord. The CRD introduced consistent capital adequacy standards and an associated supervisory framework in the EU. The CRD is implemented in the UK by the FCA and consists of three 'pillars':

- **Pillar 1** - This specifies the minimum capital requirements which the Firm is required to hold to cover business (credit, market and operational) risks;
- **Pillar 2** - This sets out the supervisory review process to be used to assess whether additional capital should be held against risks not covered by Pillar 1.
- **Pillar 3** - This specifies the disclosure requirements which the Firm is required to make and is designed to promote market discipline by providing market participants with key information on a firm's risk exposures and risk management processes.

The Firm is a Full Scope UK Alternative Investment Fund Manager ("AIFM") pursuant to the Alternative Investment Fund Managers Directive ("AIFMD") and the FCA's corresponding implementing legislation. The Firm also undertakes additional activities which result in the Firm, in respect of certain of the activities which it undertakes, being classified as a BIPRU firm. In addition to BIPRU requirements, the Firm is required to meet AIFMD capital requirements and disclosure obligations.

The disclosures below are the required Pillar 3 disclosures for the Firm. The disclosures do not apply to the fund(s) managed by the Firm, which are exposed to different risks.

This disclosure is prepared on the basis that the Firm is a BIPRU firm subject to the FCA regulations for the disclosures required under Pillar 3 contained in the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"), although as noted above, the Firm is primarily a CPMI. Further information on BIPRU can be found on the FCA website ([www.fca.gov.uk](http://www.fca.gov.uk)). These rules allow each firm to exclude disclosures where the information is regarded as immaterial, proprietary or confidential. Disclosures have been made in this document in compliance with BIPRU 11 unless that disclosure has been regarded by the Firm as being immaterial, proprietary or confidential. Additional information is available from Jenna McMahon, the Firm's Compliance Manager.

The Firm is a subsidiary of The Scottish Investment Trust PLC. For the purposes of the CRD the Firm is not consolidated with its parent. There are no current or foreseen practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between the parent undertaking and the Firm.

## **II. Risk management objectives and policies**

The Firm maintains a clear delineation between portfolio management and risk management teams which are functionally and hierarchically separated. The members of the risk function consider the Firm's risk appetite to ensure that the Firm's risk management framework is appropriately designed and implemented. The Firm's risk function meets on a regular basis to discuss and identify any potential risks that the Firm faces and will report periodically to the full Board.

The risk management procedures for the Firm reflect the business and regulatory requirement to manage a number of different categories of risk. These risks include operational, business, market, credit, insurance and liquidity risk. In respect of this disclosure the first four of these risks are most relevant and further information on these is below.

### **Operational Risk**

Operational risk is overseen by the risk committee. The Firm maintains a detailed risk register that identifies the key risks faced by the Firm and the mitigating factors and controls that address these risks. Each risk is assigned a level of impact and probability on a scale of 1 to 6. The Firm aims to ensure that there are sufficient mitigating factors and controls to ensure that the net probability of each risk is low. The risks register is reviewed and approved by the Firm's risk committee regularly.

### **Business Risk**

The Firm has identified the key business risks as principally taking the form of a failure by a third-party administrator or the loss of key staff. To mitigate business risks, the Firm periodically models various economic scenarios to assess the potential impact that these would have on the Firm's financial position. The exposure to these business risks is to some extent mitigated by having (i) appropriate staff retention policies and (ii) maintaining a comprehensive outsourcing monitoring plan.

### **Market Risk**

Market risk is limited and not material although as an asset management business, the portfolio managed is subject to market risk. The Firm's fees are not linked to assets under management and revenues are not affected by rises and falls in markets. There is a focus on cost control and operational expenses are kept low.

### **Credit Risk**

The Firm's exposure to credit risk is the risk that its parent becomes unable to meet the repayment of liabilities and the exposure to banks where cash is deposited.

## **III. Capital resources**

The Firm is not required to calculate an operational risk charge for its Pillar 1 requirement under applicable exemptions. In terms of BIPRU the Firm's minimum capital requirement under Pillar 1 would be the greatest of:

- the base capital requirement of €50,000;
- the sum of its market and credit risk requirements; and
- its fixed overhead requirement.

In practice, the fixed overhead requirement would be the greatest and therefore would establish the Firm's minimum capital requirement under Pillar 1. However, the Firm is also required to meet AIFMD capital requirements and disclosure obligations as applicable to an AIFM under IPRU(INV). As the AIFMD capital requirements are greater than the BIPRU requirements, these are the capital requirements which the Firm must adhere to.

The basic requirement is that as an AIFM the Firm must have an initial capital of at least the higher of (i) €125,000 plus 0.02 per cent of the portfolio of relevant AIFs under management over €250m (subject to a cap of €10 million) and (ii) one quarter of the firm's relevant fixed expenditure. AIFMs must further either have professional indemnity insurance or have additional own funds appropriate to cover risks arising from professional negligence.

The Firm has assessed its capital requirement as being £226,272. As at 31 December 2018 the Firm has capital as follows

<b>Capital item</b>	<b>£'000</b>
Tier 1 capital (share capital and reserves)	386,722
<b>Total capital resources, net of deductions</b>	<b>386,722</b>

The Firm assesses the adequacy of its capital through its Internal Capital Adequacy Assessment Process. As part of this process, the Firm assesses all known risks, including operational and business risks, and performs stress and scenario tests to determine whether the level of capital that the Firm holds is adequate to support its current and future activities. Following this analysis, it is the Firm's opinion that no additional capital is currently required. As at 31 December 2018 the Firm had net assets of £382,393.15.

The Firm does not hold any equities, other than those considered immaterial, does not have a trading book and does not undertake any form of securitisation.

#### **IV. Remuneration**

As an AIFM, the Firm is required to comply with the AIFM remuneration code set out in SYSC 19B. The current policy applies from 1 November 2015 being the start of the first financial year following the Firms authorisation as an Alternative Investment Fund Manager ("AIFM").

The Firm has chosen to disapply the 'pay-out process rules' based on its small size, relatively straightforward internal organisation and the nature/complexity of the activities undertaken.

The Remuneration Committee of the parent company, The Scottish Investment Trust PLC, is responsible for reviewing the remuneration package of all executive Directors and staff each year. Given the size and nature of the Firm, it does not have a separate remuneration committee. It is intended that the remuneration package is sufficient to attract and retain employees of appropriate calibre to provide the parent company with a high quality of service.

The Firm acknowledges the following general principles:

- Remuneration policies and practices should be consistent with, and promote, sound and effective risk management and not encourage risk-taking which is inconsistent with the risk profile of The Scottish Investment Trust PLC, the fund the Firm manages.
- Remuneration policy should be in line with the business strategy, objectives, values and interests of the Firm and The Scottish Investment Trust PLC and include measures to avoid conflicts of interest.

The Firm's performance appraisal process includes an assessment of both financial and non-financial performance metrics.

#### **Review**

This policy (including the general principles of the policy) will be reviewed at least annually by the Firm.