



**EQUILIBRIUM ASSET MANAGEMENT LLP**

**RISK PROFILE DISCLOSURE  
CAPITAL RESOURCES DIRECTIVE  
BASEL II PILLAR 3 DISCLOSURE**

**SEPTEMBER 2010**

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**INTRODUCTION**

Equilibrium Asset Management LLP is classified as a Limited Licence €50,000 firm and, as such, is required to comply with the three Pillars of Basel II (the Capital Requirements Directive). The three Pillars that make up the Capital Requirements Directive are set out below.

Capital Requirements Directive		
Pillar 1	Pillar 2	Pillar 3
Minimum Capital Requirements	Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review and Evaluation Process (SREP)	Disclosure

This document is designed to satisfy the requirements of Pillar 3 by setting out the firm's risk management objectives and policies.

The aim of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements for investment firms and credit institutions that will allow other 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 public for the benefit of the market.

The firm does not use the IRB Approach when calculating its Credit Risk Capital Component.

The firm is not subject to consolidated supervision.

All figures in this document are correct at 22 September 2010 unless stated otherwise.

## RISK MANAGEMENT POLICIES AND OBJECTIVES

The firm is a specialist asset and wealth manager, providing investment management and financial planning services to a variety of high net worth individuals who have liquid assets of between £50,000 and £5m under our influence.

Where possible, the firm will attempt to manage all the risks that arise from its operations. As the firm is a Limited Licence €50,000 firm, it is not usually exposed to Credit Risk, Market Risk (including interest rate risk) or Operational Risk. However, the firm has separately considered the risks associated with its business and these are detailed later in this document.

The ways in which the firm manages the risks faced include producing key risk information and indicators to measure and monitor performance and using Management and Board Committees to monitor and control specific risks.

- Credit Risk – relates to a firm’s proprietary holdings. However, as Equilibrium Asset Management does not invest on its own account, credit risk is therefore not deemed to be a consideration.
- Market Risk – this also relates to firm’s proprietary holdings. Again, as the firm does not invest on its own account, market risk is therefore not a consideration.
- Operational Risk – as stated above, operational risk in the context of calculations for capital adequacy is not required for a BIPRU Limited Licence firm and we have concluded that this is an appropriate approach to take for our business.
- Concentration Risk – relates to the exposure of a firm in relation to sectoral, geographic, liability and asset concentrations. As the firm does not invest on its own account, we do not deem concentration risk to be a consideration.
- Liquidity Risk - the key risks relating to liquidity for a Limited Licence Investment Firm such as Equilibrium Asset Management are principally those that a) the Firm’s cash flow is insufficient and b) that the Firm’s assets cannot be liquidated in a timely manner to meet liabilities as they fall due. In our case, capital held over and above our minimum requirements is with a major bank and is immediately accessible. Historically and currently, the firm has a positive cashflow and holds reserves in excess of the Pillar 1 and 2 requirements. We are therefore satisfied as to the level of our liquidity resources.
- Business Risk – a summary of the key areas we have identified are as follows:
  - Key persons risk which we have mitigated by appropriate insurance arrangements as well as additional approved persons who are able to take over the investment manager function
  - Discretionary investment management – we have implemented robust procedures to protect against any breach of mandate and error rates are reviewed periodically
  - Business continuity – a documented and workable plan is in place to ensure continuity in the event of business interruption
  - Wrap platforms – the majority of client assets are held, administered and managed via one wrap platform system although a second alternative is also used. Due diligence was conducted prior to selecting the platforms and a review of the market is carried out on an annual basis to ensure ongoing suitability
  - Fund selection and advice – detailed investment principles have been drawn up to mitigate the risk of a failure in terms of the funds recommended within our portfolios. Guidance is in place which means that a maximum of, for instance, 5% of a clients’ portfolio will be in any one fund.
- Interest Risk – risks arising from fluctuations in interest rates is currently minimal to the business as there is no outstanding loan finance

- Reputational Risk – from an internal aspect, recruitment procedures are documented and followed regarding members of the team to ensure competency and experience at outset. On an ongoing basis, all staff are subject to annual fitness and propriety checks and ongoing competency is monitored via the T&C procedures. In addition, there are a number of systems and controls in place to mitigate this area of risk, including that of being associated with any third parties, and we retain the services of a professional compliance consultancy to oversee our policies and procedures.
- Financial Crime Risk – procedures are in place to ensure verification of clients and employees, thereby mitigating this area of risk.
- Systems and Controls Risk – the firm continually seeks to improve organisation, systems, procedures and internal controls to minimise the risk of material mis-statements in information being reported to its clients. Internal controls are described in the Procedures Manual and are subject to annual review as a minimum. Internal controls are self-regulated, which means that exceptions to such controls are reported to the Management Team.

## **RISK MANAGEMENT FUNCTION**

### **Structure**

The firm currently has three partners who all own a stake in the business. It has been agreed to extend the numbers of partners to include a further equity partner and two non-equity partner, subject to FSA approval, during the current year. This will strengthen the management team in terms of experience but also the business itself due to the increased responsibility placed on the proposed new members by the partnership agreement and the FSA requirements.

A formal decision making process is detailed in the partnership agreement; however, regular meetings of the management team mean that decisions are discussed and debated as and when they arise. Management meetings (including the Investment Manager) are held weekly and partner meetings are held monthly.

The majority of the support team is split into three further areas, Investment, Bespoke and Model (in reference to the clients' investment mandate with EAM) and are managed on a day to day basis by three Team Leaders. A Team Leader meeting is held weekly to impart any management decisions made which is subsequent relayed to their various teams for implementation.

Within the management team, Colin Lawson is responsible for Insurance Mediation. He is also responsible setting the overall strategy for the business, including ensuring that the advice given by the providers is in line with our agreed approach and philosophy.

Debbie Jukes has overall responsibility for the compliance and MLRO functions. To support her, external compliance consultants have been retained to ensure the business conforms to the regulatory standards necessary.

Mike Deverell, as Investment Manager, has responsibility for the strategy, research, asset allocation and performance of Equilibrium's standard portfolios. Investment Management Committee meetings are held at least weekly (more often when warranted) and attended by all the advising partners as well as the Investment team. All meetings are minuted and decisions noted. A formal procedure is in place for the monitoring of funds and products.

### **Risk Reporting and Management Systems**

There are a number of reports and processes that are employed by the firm to enable key risks to be identified, reported to appropriate personnel for consideration and, where required, action and managed. These include:

#### Compliance Risk Assessment

This is an assessment of all relevant risks that the firm is likely to face in the next twelve months and is performed on an annual basis. The report is presented to the firm's management team for review and approval and is used as the basis for the firm's compliance monitoring for the following period.

#### Compliance Resource Assessment

This assessment determines the level of internal compliance resource required by the firm for the period covered by the compliance risk assessment and will identify shortfalls in resourcing that could lead to compliance weaknesses and breaches. This is performed annually and is presented to the firm's management team for review and approval.

#### Money Laundering Risk Assessment

A forward looking annual assessment of the risks the firm faces from money laundering and wider financial crime. The MLRO will use this assessment to drive the necessary anti financial crime initiatives within the firm.

Compliance Oversight Officer's Report

Partners' reports are produced on a quarterly basis covering compliance oversight and anti-money laundering issues in conjunction with our external compliance consultants. The report is presented to the management team for consideration and action as appropriate at the quarterly Partner Meetings.

## CAPITAL RESOURCES

The firm's capital resources comprise entirely of the partners' capital accounts and audited reserves held as cash on deposit.

Tier 1, Tier 2 and Tier 3 capital is as set out below:

	Tier 1 Capital
Gross	£367,000
Less Innovative Tier 1 capital	-
Deductions	-
Net	£367,000

	Tier 2 Capital
Gross	n/a
Plus Innovative Tier 1 capital	n/a
Deductions	n/a
Net	n/a

	Tier 3 Capital
Gross	n/a
Net	n/a

	Total Capital Resources
Gross*	£367,000
Deductions (fixed overhead requirement)	£251,000
Net surplus	£116,000

[\*NET OF DEDUCTIONS IN GENPRU 2.2 AND LIMITS LAID DOWN IN GENPRU 2.2.25R TO 30R AND GENPRU 2.2.42R TO 50R]

## **INTEGRATION INTO BUSINESS STRATEGY**

It is the intention of the firm to maintain sufficient capital resources to allow it to continue to operate profitably in the financial planning and discretionary investment management areas and to provide a reasonable return for the partners of the firm. In order to maintain this capital the firm must generate and retain profits that will add to the firm's financial reserves.

The firm is a specialist asset and wealth manager.

The firm acts as asset and wealth manager to a variety of high net worth individuals, with liquid assets between £50,000 and £5million. There are no plans to change this business model.

The firm operates on a payment by fee or payment by commission, or payment by a combination of both fee and commission basis. The charges are based on a percentage of the value of clients' assets that fall under our influence.

As a result of the above business model, the risks attaching to the firm are negligible. The principal risks are of very persistent and significant underperformance resulting in loss of clients and a falling revenue.

A target has been set to increase assets under influence by £27m per year for the next 3 years, through a combination of new clients and additional assets from existing clients.

We have appointed a PR agency as part of our marketing strategy to increase awareness of our business and take advantage of exposure (the success of which was seen following the appearance of an article relating to the firm in a national Sunday paper earlier in the year). We are also continuing with our seminar programme but adapting this to make it more appropriate to existing clients who can then also invite guests and, by doing so, increase the rate of referrals. We are developing relationships with a small number of legal practices to ensure that we are their preferred adviser for the appropriate types of client.

There are no immediate plans to grow by acquisition in the short term although this is a strategy that have considered and one which remains on the table should a suitable opportunity arise. We are not taking a proactive approach though.

### **Internal Capital Adequacy Assessment Process ("ICAAP")**

The ICAAP combines Pillar 1 and Pillar 2 requirements and involves a detailed analysis of the various elements of the business to understand the need for capital in the forthcoming period. Various models are tested in the process to identify areas where additional capital may be required to manage the risks to which the firm is exposed.

The result of the ICAAP is challenged by a party independent of the preparation of the ICAAP and this is ultimately reviewed and approved by the firm's governing body to ensure that there is sufficient capital within the firm to meet our future plans and anticipated risks.