

# **JLT Investment Management Limited**

## **Pillar 3 Disclosures**

### **1. Introduction**

These disclosures are made in order for JLT Investment Management Limited ("JLTIM")(the "Firm") to comply with the Financial Services 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;

Pillar 3: disclosure requirements which enable the market to assess information about our risks, capital, risk management processes and remuneration policies <sup>1</sup>

The Financial Services Authority's rules governing the Pillar 3 disclosures are set out in chapter 11 of the Financial Services 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 Jardine Lloyd Thompson UK 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 Group website ([www.jltgroup.com](http://www.jltgroup.com))

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.

### **2. Risk Management Framework**

JLTIM is part of the Jardine Lloyd Thompson Employee Benefits Group (JLTEB) and the JLTEB Chief Executive, who is also a Director of JLTIM, provides the Firm's representation on the General Executive Committee of JLT Group.

The JLTIM Executive Committee is made up of directors of JLTIM, Business Risk, Finance and Marketing and reports directly to both the JLTEB Operating Board and the JLTIM Board.

JLTIM has a robust governance structure characterised by these defined reporting lines and its risk framework is considered by the JLTIM Board to be appropriate to the size, nature and complexity of the Firm's business. The risk culture is defined by close monitoring and control on a risk based approach by Internal Audit. Senior management have identified the management of risks as a critical issue for the Firm and the JLTIM Executive Committee is responsible for identifying, considering and taking appropriate action to reduce risks and thus ultimately to reduce the potential financial impact of such risks.

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<sup>1</sup> Remuneration Code Pillar 3 disclosures are available at <http://www.jltdm.com/invman.asp>

Risks are discussed monthly by the JLTIM Executive Committee and managed as appropriate. The JLTIM Executive Committee is responsible for maintaining a risk log that is kept up-to-date and feeds into the Internal Capital Adequacy 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.

The risk management framework operates with a multi-layered approach.

Layer 1 - Primary responsibility within the Firm for the identification, management, monitoring and mitigation of risks lies with the respective business areas and via the JLTIM Executive Committee with support from specialist support areas (Business Risk, Finance, HR, MLRO).

Layer 2 - The second layer of risk management comes via the JLTEB Group Risk Management function which oversees all companies within JLTEB.

Layer 3 - The third layer of risk management is driven by Group Internal Audit who report their findings directly to the Audit and Risk Committee of the JLT Group Board.

All findings from each of the layers are reviewed by the JLTIM Executive Committee and the Firm's Board to determine if the risks are within the Firm's current risk appetite. In general, it is the Firm's policy to mitigate identified risks by introducing and maintaining controls to ensure the risk remains within the Firm's risk appetite or avoiding/ceasing the activity that led to the risk in the first instance.

### 3. 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 2011.

30 June 2011 Data (£ 000s)	JLT Investment Management Ltd
Net assets	3,837
Total gross income	1,069
Total expenditure	564
EBIT	504
Profit (loss) after tax & dividend	456
Tier 1 capital	3,076
Tier 2 capital	0

Tier 3 Capital	0
Deductions	0
Total regulatory capital available	3,076
Fixed overhead requirement (FOR)	356
Credit risk requirement	386
Market risk requirement	0
Base capital requirement	0
Total Pillar 1 capital requirement	386
Regulatory capital surplus over Pillar 1 requirement	2,689

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 mitigators, 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.

#### 4. Review of Potential Risks

**4.1 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 Institutional 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.

**4.2 Market Risk** - The Firm is a limited licence BIPRU firm by virtue of its permissions notice, and as such it does not take principal positions. Therefore the Firm does not have market risk of significance. It manages client assets and the impact of market movements on managed assets is considered under business risk.

**4.3 Operational Risk** - Defined as 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 consequential risk arising from the crystallisation of other risks, rather than be treated as 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: Loss of key senior members of staff and investment talent; failure to recruit appropriate staff; failure to meet regulatory conduct of business and financial and regulatory reporting requirements; failure in the Firm's IT systems and infrastructure; failure in the Risk Management process; fraud and misappropriation of assets; execution errors; failure in IT structures & Business Continuity Planning ("BCP"); and failure to manage funds under management in accordance with mandates or company procedures.

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

**4.4 Liquidity Risk** - The perceived risk is that, due to the inability of an institution to meet its liabilities when they become due there would be insufficient liquidity within JLTIM to meet its own obligations. Due to the relatively low level of exposure in this area and the quality of institution used, this risk was not considered material.

**4.5 Insurance Risk** - The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities and of those risks coinciding with the failure of insurance policies held to pay out.

The Firm maintains Professional Indemnity Insurance ("PII") cover that it believes is sufficient to meet both operational requirements and the obligations imposed by regulators. However, for simplicity and prudence, PII cover has not been taken into account when assessing the financial impact of risks to the Firm and the capital held should be sufficient without having to call on PII cover.

**4.6 Concentration Risk** - The Firm does not believe that it specifically is dependent on any one client or service area as its clients are both individuals and institutions (pension schemes, corporate entities and charitable trusts). Therefore, no additional capital is considered necessary under Pillar 2 in respect of concentration risk.

**4.7 Residual Risk** - The risk that credit risk mitigation techniques used by the credit institution prove less effective than expected. The Firm does not accept any form of collateral in the normal course of its business. It has no history of bad debts and considers that its controls in place are sufficient.

**4.8 Securitisation Risk** - The Firm does not have securitised assets and does not intend to securitise any assets for the foreseeable future

**4.9 Business Risk** - Arises from changes to a firm's internal and external environment and includes the risk that the firm may not be able to carry out its business plan and desired strategy. 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 were considered in detail and appropriate mitigators are in place where possible to reduce the potential impact of these risks. Scenario analysis was also undertaken to test the Firm's ability to withstand significant adverse business risks that are outwith its control.

**4.10 Interest Rate Risk** - The potential impact of adverse movements in interest rates in the non-trading book and the impact these have on planned future cash flows. The Firm has no external financing arrangements and therefore is not exposed to interest rate risk or refinancing risk on borrowings.

**4.11 Pension Obligation Risk** - The Firm has a money purchase scheme but does not have a defined benefit pension scheme and as such is not exposed to the risks associated with the valuation of future pension liabilities. Therefore this is considered not to be a relevant risk.

## **5. Scenario Analysis**

To ensure that the Firm's capital efficiency is sufficiently robust to withstand adverse macro economic conditions, management have analysed the impact of different scenarios. Consideration has been given to global events and experience outside the control of the Firm, including the recent credit crisis and turmoil in the banking sector. Management have identified extreme risk scenarios and evaluated the Firm's capital adequacy under each of these individually and also in the aggregate. The assessment has been undertaken to ensure that under such severely distressed conditions, the Firm would still be able to adequately meet its capital requirements.

The Firm considered the following severe, plausible and relevant scenarios

- a. Severe economic recession
- b. Under performance of Funds Under Management in comparison to industry benchmarks
- c. Multiple effect
- d. 'Doomsday'

In all of the scenarios tested it was concluded that a surplus of regulatory capital would continue to be held throughout, and as a result the Firm did not consider it necessary to hold more capital than it currently held.

**January 2012**