



ST. JAMES'S PLACE

**ST. JAMES'S PLACE INVESTMENT
ADMINISTRATION LIMITED**

**Pillar 3 Disclosures Report
2018**

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Introduction

This Pillar 3 Report has been prepared in line with the requirements of the Capital Requirements Directive (“CRD IV”) and Capital Requirements Regulation (“CRR”), to assist clients of St. James’s Place Investment Administration Ltd (the “Company” or “SJPIA”) and other stakeholders in understanding the nature of our business, how it is managed, and its capital position.

SJPIA is part of the wider St. James’s Place group of companies, headed up by St. James’s Place plc.

Relevant information about the Company’s business is also provided in:

- The Company’s Annual Report and Accounts for the year ended 31 December 2018 (the “Company Report & Accounts”), a copy of which can be found at <https://beta.companieshouse.gov.uk/company/08764231/filing-history>
- The Group’s Annual Report and Accounts for the year ended 31 December 2018 (the “Group Report & Accounts”), a copy of which can be found at <https://www.sjp.co.uk/shareholders/reports-presentation-and-webcasts/2019>

Where appropriate we will refer readers to these documents.

There are, however, certain specific CRD IV and CRR requirements which are not already reported publicly elsewhere, and those are specifically included in this report. In particular, this report includes full reporting of the Company’s capital position at 31 December 2018.

These disclosures have been reviewed internally and approved by the Board of SJPIA. They have not been externally audited, except to the extent that they reproduce information also included within the Company Report and Accounts or the Group Report and Accounts.

These disclosures do not constitute financial statements and should not be relied upon in making judgements about SJPIA, or for any other purpose other than that for which they are intended.

A. Background

The St. James's Place group ("the Group") is a vertically integrated wealth management group, which benefits from the synergies of combining funds management with the provision of advice.

St. James's Place Investment Administration Ltd ("SJPIA" or the "Company") is a limited license investment firm, with no subsidiaries, which administers investments in the Group's range of unit trusts, both UCITS funds and NURS funds, and acts as an ISA manager.

SJPIA is a wholly-owned subsidiary of St. James's Place Wealth Management Group Limited ("SJPWMG"), which in turn is a wholly owned subsidiary of St. James's Place plc ("SJP"), the ultimate parent company of the Group.

An overview of the Group structure, and SJPIA's role within this, is included in the Strategic Report within the Company Report and Accounts.

SJPIA is domiciled in England and Wales (No. 08764231) and its registered address is St. James's Place House, 1 Tetbury Road, Cirencester, Gloucestershire GL7 1FP.

SJPIA is authorised in the UK by the Financial Conduct Authority ("FCA").

B. System of Governance

B.1 General information on the system of governance

SJPIA Governance

SJPIA is managed as a Group subsidiary company with a number of key governance, strategy, planning and risk management processes, and, to a large extent, senior operational management, operating at a Group level.

The FCA has approved a modification of its rule IFPRU 1.2.3R, which removes the requirement for SJPIA to have its own entity-level Nomination, Risk and Remuneration Committees (Reference number 4708524, which was granted in 2017 and expires on 11 September 2020). In line with this direction, these committees operate at a Group level.

However, certain decisions and key matters must be considered directly by the board of SJPIA. Such matters include:

- Those required by law (e.g. matters under the Companies Act 2006 (such as dividend payments) and accounting and auditing legislation (such as approving annual accounts));
- Those required by regulators (e.g. approval of the CRD IV disclosures and ICAAP); and
- Other commercial matters the directors of SJPIA deem, in view of their fiduciary duties, they should consider directly (e.g. entering into key agreements).

The members of the SJPIA Board are shown in the following table, which also contains details relating to the number of other directorships they hold:

	Number of directorships held		
	Within SJP Group	Other	Total
A M Croft	15	2	17
I S Gascoigne	12	1	13
C G Gentle	21	1	22
I D MacKenzie	7	4	11

Group Governance

The business performance of each of the regulated entities within the Group, including SJPIA, is ultimately linked with that of the Group as a whole and the majority of risks impact more than one of the regulated entities. The governance structure is designed to reflect this high level of integration, with the business of the Group being governed by a unified Group board committee structure for SJP plc.

The Board of directors of SJP plc (the “Group Board”), in conjunction with its Executive Board Committee (“ExBo”), sets the strategic direction for, and risk appetite of, the Group. The Group Board has delegated certain responsibilities to board committees, whose members are non-executive. The Group Board reserves certain matters to itself but delegates other matters to ExBo, which is responsible for the Group’s operational matters. Each member of ExBo has individual responsibility for a number of divisions within the Group, providing smooth and effective reporting structures and delegations of authority.

In line with the centralised governance structure, the key functions are organised as Group functions, ensuring consistent implementation of systems and procedures across the Group.

Further information on the Board, the Group’s System of Governance is provided in the Corporate Governance Report on pages 82 to 93 and the Directors’ Remuneration Report on pages 120 to 137 in the Group Report & Accounts.

B.2 Group Policies

In line with the centralised governance structure, key policies are set at Group level ensuring a consistent approach across the Group.

Remuneration Policy

Information on the Group's Remuneration policies is provided in the Corporate Governance Report on pages 138 to 141 and the Directors' Remuneration Report on pages 120 to 137 in the Group Report & Accounts.

Detail on the remuneration of the 4 Directors of SJPIA, including the split between fixed and variable elements, is included below:

Remuneration	Amount (£k)
Fixed	200.0
Variable	
- Cash	70.9
Deferred	
- Shares outstanding at 31/12/2017 (unvested)	737.7
- Shares awarded in respect of 2018 performance	211.4
- Shares paid out during 2018	(194.7)
- Shares outstanding at 31/12/2018 (unvested)	754.4
Ratio of variable to fixed remuneration	141%

These amounts relate to the Directors' remuneration in respect of their services to SJPIA.

Recruitment Policy

Information on the Group's Recruitment Policy is also included in the Report of the Nomination Committee within the Group Report and Accounts (on pages 111 to 115).

Diversity Policy

Information on the Group's Diversity Policy is included in the Report of the Nomination Committee within the Group Report and Accounts (on page 114).

B.3 Risk management system including the ICAAP

Information about the Risk Management Framework that applies consistently across the Group is included on pages 47 to 55 of the Group Report & Accounts. Additional information about the position in the organisation of the Group Risk Executive Committee (“GRE”) can be found on page 87 of the Group Report & Accounts, and the activity of the Group Board’s Risk Committee on pages 106 to 110.

The Group Board and the boards of the subsidiary entities, including the SJPIA Board, have responsibility for assessing their main risks and these are monitored on a regular basis by the Group Board’s Risk Committee and ExBo.

The Internal Capital Adequacy Assessment Process (“ICAAP”) process has proven to be useful for making consideration of risk appetite more prominent in management decisions. The ICAAP is an annual assessment cycle supporting strategic planning and capital management activities. It uses outputs from the Risk Management processes to inform and agree risk tolerances and capital requirements. The ICAAP framework consists of:

- Identifying and assessing risks in accordance with the Risk Management Framework;
- Projecting the capital requirements based on the risk profile and risk appetite and the expected own funds based on the strategic business plan;
- Assessing capital requirements within SJPIA to remain solvent under reasonably foreseeable conditions;
- Monitoring compliance with the capital requirements; and
- Reporting conclusions and findings from ICAAP processes to the Board and regulator.

The ICAAP process is directed by the SJPIA Board, and comprises a comprehensive risk assessment, providing understanding of the risks that the Company faces, how those risks are managed and how those risks might change, in the context of the strategic plan. The process incorporates a quantitative analysis of the capital required to protect the sustainability of the Company, and how it might develop over our planning period (five years). In addition, consideration is given to the level of capital to resolve the business in an orderly fashion.

As part of the Group’s ongoing risk management approach we perform a range of stress and scenario tests, reporting on the output as part of the ICAAP. This stress and scenario testing comprises two elements:

- Sensitivity and stress testing of the financial and capital position to changes in key modelling assumptions.
- Exploration of plausible adverse scenarios that may arise in the normal course of business – these are derived from the key drivers of business and the schedule of significant operational risks to the Group. Where possible the Group undertakes quantitative analysis of solvency in addition to profit and loss impacts, augmented with qualitative analysis if modelling is not appropriate. This scenario testing also includes analysis of new risks emerging in the business and informs our programme of reverse stress testing.

The risk profile of SJPIA is consistent with the key risk exposures described in the Group Report & Accounts.

Capital requirements are calculated separately and monitored by the SJPIA Board.

C. Risk Profile

Information about the risk profile of the business, and the principal risks and uncertainties that are inherent within both the Company's business model and the market in which it operates, is included on page 4 of the Company Report & Accounts, in the Principle Risks and Uncertainties section. These are the risks which could have a material impact on the key strategic outcomes.

Against each of the principal risks, consideration is given by the Group Board to the level of exposure (likelihood and impact) and the extent to which the risk can be mitigated. This is recorded through local level risk registers and aggregated into a Group-level 'Top Risk List'. The tables in the Company Report & Accounts set out the principal risks, the business outcomes on which they impact, and the high-level controls and processes through which we aim to mitigate them.

C.1 Market risk

Market risk arises from fluctuations in values of, or income from, assets, interest rates, exchange rates or market prices of commodities.

Our investment policy substantially mitigates market risk, by requiring us to invest shareholder assets in highly rated and highly liquid sterling denominated cash-type investments, such as Money Market Liquidity Funds and Bank Deposits. The company does not therefore have any significant exposure to changes in interest rates.

The Company has no exposure to market risk through a trading book or foreign currency exposure, and hence no Pillar 1 capital is held for Market Risk.

Whilst SJPIA's balance sheet is not impacted in the short term through market risks, the profits emerging over time depend on the value of the net assets on the Bluedoor administration platform upon which service charges are applied.

C.2 Credit risk

Credit risk arises from an event causing an asset (including off-balance sheet transactions) to lose value.

As noted above, our investment policy requires us to invest shareholder assets in highly rated and highly liquid sterling denominated cash-type investments, such as Money Market Liquidity Funds and Bank Deposits. Minimum credit ratings and diversification requirements are managed through our Group Credit Risk Policy.

The Credit Risk Capital Requirement under Pillar 1 has been determined using the simplified method for calculating risk weightings.

C.3 Operational risk

Many of the principal risks for the Company, identified on page 4 of the Company Report & Accounts are operational risks, reflecting the inherently low risk nature of the Company's business.

In relation to our operations, a key feature of our business model is outsourcing of a number of important elements. Whilst outsourcing changes the characteristics of the 'gross' (inherent) operational risk, our robust governance framework for oversight of material outsourcing arrangements mitigates this exposure, bringing the 'net' (residual) exposure in line with our corporate risk appetite.

The Company assesses its Pillar 1 capital using the standardised regulatory assessment methodology. Significant operational risks are assessed as part of our ICAAP via the development of scenarios in workshops involving subject matter specialists from across the Group. The output of the scenario workshops is used to inform our own assessment of operational risk capital requirements as part of the Pillar 2 assessment.

C.4 Liquidity Risk

Liquidity risk arises when the firm is unable to realise investments and other assets in order to settle its financial obligations when they fall due, including incurring unacceptable losses in order to realise these investments.

Shareholder funds (including working capital) and client money are held in cash or cash equivalent at all times and are therefore highly liquid. In addition, client unit sale and repurchase processes have been designed to ensure that SJPIA receives cleared funds before having to settle with fund managers and before making payments to clients.

As assets are highly liquid and sources of income are unlikely to be impeded, liquidity risk is considered to be very low for the Company.

To gain further comfort we perform stress and scenario testing which demonstrates that the entity is expected to be able to maintain adequate capital under severe but plausible scenarios. Since all the capital is highly liquid it is not considered that there would be any liquidity constraints under severe but plausible scenarios.

D. Capital Management and Own Funds

D.1 Own funds

The composition of the Own Funds is as follows:

£m	31/12/2018	31/12/2017
Share Capital	12.0	12.0
Brought forward profit/(loss)	9.3	6.3
Current year audited profit/(loss)*	5.4	2.9
Common Equity Tier 1 Capital	26.7	21.3
Total Own Funds	26.7	21.3

* Post dividends of £18m in 2017 and £19.8m in 2018.

(Note that the above table includes a rounding difference, owing to the figures being presented to 1 decimal place.)

SJPIA holds only Common Equity Tier 1 capital; this is the highest quality form of capital, comprising accumulated reserves and qualifying instruments. None of the Company's assets are encumbered and there are no restrictions on the availability or fungibility of the own funds to meet liabilities.

The Total Own Funds of £26.7m at 31/12/18 are in line with the Total Shareholder Funds shown in the Statement of Financial Position on page 11 of the Company Report and Accounts.

SJPIA has no financial reliance on related undertakings.

D.2 Capital Requirements

The Company's Pillar 1 Own Funds Capital Requirement is calculated in accordance with the rules set out in the CRR, based on the higher of:

- Fixed Overhead Requirement and
- Credit Risk Requirement plus Market Risk Requirement

The resulting capital requirements at 31 December 2018 are summarised in the following table, with comparative figures also shown for the previous year:

	31/12/2018	31/12/2017
A: Fixed Overhead Requirement	8.9	7.2
B: Market + Credit Risk Requirement	1.2	1.1
C: Own Funds Capital Requirement (max of A and B)	8.9	7.2
D: Own Funds*	26.7	21.3
Own Funds ratio (D/C)	300%	296%

* Own Funds are based on the audited year-end financial statements

The CRR also requires us to disclose a Capital Ratio assessed as the Own Funds divided by Total Exposure (which is calculated as the Pillar 1 capital multiplied by 12.5), in accordance with article 92 of the CRR. On this basis the Company's total capital ratio was 24% at 31/12/18, significantly above the minimum requirements under the CRR of:

- CET1 capital ratio of 4.5%
- Tier 1 capital ratio of 6%
- Total capital ratio of 8%

Our Group Capital Management policy requires that SJPIA should hold Own Funds at least equal to 200% of its Pillar 1 Capital Requirement. This requirement has been assessed through our ICAAP process, as being sufficient to meet the management risk appetite, which is to hold a margin above the minimum regulatory requirement at all times.

The Company's capital at 31/12/18 is therefore significantly above the minimum levels required under both the CRR and the Group's Capital Management Policy.

Fixed Overhead Requirement

The fixed overhead requirement is assessed as 25% of fixed overheads relating to the previous year, in line with the requirements of article 97(1) of the CRR.

Credit Risk Requirement

SJPIA is a limited license firm and uses the simplified method for assessing its credit risk capital – i.e. as 8% of the Company’s risk-weighted exposure to credit risk. This assessment applies to the Company’s cash, AAA rated money market fund investments, short-term intercompany and other debt as follows:

£m	Amount	Risk weighting	Risk-weighted exposure	Credit risk capital (8% of risk-weighted exposure)
Cash	14.5	20%	2.9	0.2
Money-market funds	23.4	20%	4.7	0.4
Short-term intercompany debt	5.6	100%	5.6	0.4
Other debt	2.1	100%	2.1	0.2
Total	45.6		15.3	1.2

SJPIA uses S&P as its ECAI and maps these to credit quality steps using the EBA Guidelines.

A risk-weighting of 20% is applied to the Company’s cash holdings, which have overnight access and are invested in highly-rated UK banks. A 20% risk weighting is also applied to our investments in money market funds, all of which are AAA rated. For prudence a risk weighting of 100% is applied to intercompany and other debtors. These weightings are in line with the CRR requirements, as set out in the FCA Handbook (in IFPRU 4.2).

No additional counterparty risk capital is required as the Company does not have a trading book.

As a limited license firm, SJPIA is not required to hold any countercyclical capital buffers.