PILLAR 3 DISCLOSURES

As at 31 December 2016

true potential investor

1. Introduction

1.1 Introduction

The EU Capital Requirements Directive (CRD) created a revised regulatory capital framework across Europe and was based upon the provisions of the Basel II Capital Accord. True Potential Investments regulator, the Financial Conduct Authority (FCA) is responsible for the implementation of the requirements in the Directive and the details are covered in the FCA handbook.

The Basel II capital adequacy framework consists of three pillars:

- Pillar 1 sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk;
- Pillar 2 requires firms, and the FCA, to take a view on whether additional capital should be held against capital risks not covered by Pillar 1; and
- Pillar 3 requires firms to publish certain details of their capital, risks and risk management process

1.2 Purpose of Pillar 3

The rules in the PRA and FCA Prudential sourcebook for Investment Firms ('IFPRU') set out the provision of the Pillar 3 disclosure. The purpose of Pillar 3 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 exposure and risk assessment process. These disclosures are made public for the benefit of the market.

This document is designed to meet TPI's Pillar 3 disclosure obligations.

1.3 Business Structure and Activities

TPI is a UK limited liability partnership that provides a wealth platform, a pension scheme and investment management services to a wide range of customers.

TPI is part of the True Potential Group of companies; within the same group there is True Potential Wealth Management and True Potential Adviser Services.

2. Risk Management Framework

2.1 Overview

The risk management framework in True Potential Investments forms an integral part of the management and Board processes and decision-making in the firm. The key element of our risk management framework comprise:

- Risk appetite statements;
- Risk governance – including risk policies and business standards;
- Risk & Compliance oversight committee; and
- The processes we use to identify, measure, monitor and report risks across the business.

2.2 Risk Management

Risk Appetite

TPIs risk tolerance is outlined through a series of risk appetite statements that defines the types and degree of risk that the Board is willing to accept when executing the business strategy. Formulated by the Board, the risk appetite sets a practical guidance to key stakeholders in the business about the level of tolerance for the risk in the principal categories TPI is facing. It also sets the scene for the framework of controls and oversight required to ensure that risk exposure remains within acceptable levels.

2.3 Risk Governance

TPIs governance framework is made up of:

i) True Potential Investments Board

TPI Board has responsibility for setting the risk management and internal controls for TPI. It is responsible for reviewing the adequacy and effectiveness of the internal controls and risk management process. In order to identify risks and potential control weaknesses the Board draws upon the risk register (which is essentially a list of key risks that are reported regularly to the Board and are reviewed annually). The risk log shapes the compliance-monitoring regime which is also endorsed by the TPI Board.

The Board comprises a mixture of executive and non-executive members and meets at least 4 times per year. The Board fulfils its duty by means of direct intervention or by delegating appropriate responsibilities to appropriate senior managers.

ii) True Potential Group Risk and Compliance Board

The purpose of the group risk committee is to set policy and provide oversight over business and operational risks, review the effectiveness of TPIs control environment and to enhance staff awareness of the risks and mitigating policies and procedures. The committee comprises TPI Non-Executive Directors, one of which acts as chair, the Heads of Risk and Compliance for each of the firms in the Group, as well as the Group's Data Security Officer.

iii) Risk and control Monitoring

Risk management is the responsibility of all staff within each department performing functions that are vital for the effective management and mitigation of risk. TPI manages a variety of risks including investment, financial, operational and business risks.

TPI relies on the following layers of controls, oversight and assurance for risk management these are:

- The business areas who have responsibility to operate within an effective control environment
- The risk and compliance control functions who set the framework for effective risk management and provide oversight and monitoring

Imbedded as the first line of defense are the processes and procedures implemented in each department that are overseen by business managers. These vary dependent upon specific function and include reviews, approval sign off and maintenance of registers and enforcement of TPIs policies. TPIs compliance & risk function forms the second line of defense and is tasked with monitoring all categories of risk.

Operational risk is managed and mitigated by means of an embedded risk governance framework, giving clearly defined reporting lines, suitably trained and qualified staff and a comprehensive structure of internal controls with appropriate monitoring and oversight. The process is followed to identify, assess, mitigate, monitor and report these risks.

The compliance & risk function provides an independent review and challenges service as part of their day-to-day operations. Each department provides monthly updates to the TPI Board.

3. Capital Adequacy and ICAAP

3.1 Approach

TPIs approach to assessing the adequacy of its internal capital is documented in the Internal Capital Adequacy Assessment Process (‘ICAAP’).

The ICAAP Process includes an assessment of all of the material risks faced by TPI and the controls in place to identify, manage and mitigate these risks. The risks identified are stress tested against various scenarios to determine the level of capital that needs to be held.

Where risks can be mitigated by Capital, the company has adopted the new CRD IV reporting requirements for Pillar 1. Where the Board considers that the Pillar 1 calculations do not adequately reflect the risk, additional capital is added on in Pillar 2.

The ICAAP is formally reviewed annually by the Board, senior managers review risks and the required capital more frequently and will do so when there is a planned change impacting risks and capital or when changes are expected in the business environment potentially impacting the ability to generate income.

3.2 The Firms Capital Position

True Potential Investments is an IFPRU €125k Limited Licence firm and as such must maintain at all times capital resources equal to or in excess of the base requirement (€125,000), as set out at Article 95(2) of the CRR.

In accordance with FCA requirements, TPI calculates its Pillar 1 requirements by calculating the higher of:

a) The credit and market risk capital requirement; and
b) The Fixed Overheads Requirement (FOR), which equats to one quarter of the firms relevant fixed expenditure, added to the firms base requirement of €125k.

During the 12 months accounting period to 31st December 2016, the company complied fully with all Capital requirements and operated well within regulatory requirements. At the accounting date, the company held the following Capital position:

Ordinary share capital	**£100,004**
Share premium	**Nil**
Other reserves	**Nil**
Retained earnings	**£28,999,412**
Less tangible and intangible assets	**£1,357,229**
Regulatory Capital (Own funds)	**£27,742,187**
Pillar 1 Requirement	**£2,665,425**
Pillar 2 Capital Requirement	**£101,697**
Surplus Capital	**£24,975,065**

4. Key risks

The main risks faced by TPI are:

i) Market Risks

TPI Is exposed to the following primary risk factors:

- Liquidity risk
- Investment performance risk
- Market risk
- Economic Risk

Liquidity risk:
The risk that TPI is unable to meet payment obligations as they fall due. TPI has no debt and maintains capital in excess of regulatory capital requirements.

Investment performance, market, and economic risk:
The risk that funds fail to deliver the expected level of performance. This may result in client redemptions and a reduction in fees earned by both TPI itself, who are remunerated on funds under management, adviser charging would also be affected as this is commonly a percentage of the value of the funds under management. This is one of the principal risks faced by TPI and therefore considerable resources are devoted to the mitigation of the risk. All funds operate under clear mandates governed by the products & investment team, covering market, counterparty ad liquidity risk – the outcomes of this due diligence is reported to the investment committee and the TPI Board. All funds are valued daily which helps identification and transparency of risk positions.

Monthly performance reports serve to highlight any issues with fund performance to senior management, and regular performance attribution analysis provides insight into the drivers of profits and loss.

ii) Operational risks

Risks of loss from inadequate or failed internal processes, errors or security breaches:
TPI seeks to avoid risks from operational processes and technology through the continued development of a robust infrastructure and adherence to documented processes and controls. The effectiveness of internal controls is reviewed on a risk-based approach as part of the compliance-monitoring plan.

Employee retention:
The loss of a member of the TPI Board or a key investment or distribution professional could have a material adverse impact on retention and revenues. TPI seeks to minimise the risk of losing key employees and partners through competitive remuneration packages and maintaining an attractive working environment.

Breach of ethical or regulatory standards:
TPI manages this risk through a series of policies and procedures, which include, but are not limited to, conflicts of interest, bribery, market abuse etc. All staff undertake training and testing in these areas. In addition to this the compliance function undertakes a risk based monitoring programme against these policies to ensure that they are adhered to.

Fraud or the risk of loss through financial crime:
TPI have in place a fraud strategy which includes transaction monitoring and due process. Regular training and awareness is provided to staff.

Outsourcing risk:
TPI does outsource certain activities and actively seeks to minimise the risk of loss or reputational damage by ensuring robust due diligence is undertaken in advance of contracting with a third party. Robust contractual and service level agreements are in place and monitored and due diligence on both the organisation and contractual services provided are undertaken on a regular basis.

Cyber-crime:
TPI is at the forefront of cutting edge technology in the financial services markets, this put us at the risk of cyber-crime. TPI manage this risk with structured and robust information security policies. True Potential are ISO27001 compliant and undertake regular independent assessments of the IT services we provide.

iii) Business Risks

Business strategy risk:
The risk that the Board set an inappropriate strategy for senior management or the strategy fails to be implemented effectively. This includes the strategies around new products and sustaining the firm's culture and control environment during periods of growth. Clearly defined accountability, reporting lines, committee structures and governance allow the Board to receive management information on which to base their strategies and monitor implementation.

Regulatory risk:
The risk that TPIs profitability may be negatively impacted by regulatory changes. TPI accepts the demands of this and maintains an open and constructive dialogue with FCA as well as other regulatory agencies to gain insight into potential regulatory developments.

Reputational risk:
Likely to arise as a result of failure to manage other risks in line with the stated risk appetite. This is one of the principal risks for an asset management business, and TPI recognises that effective risk management and strong internal controls are central to the business model.

iv) Financial risks

Counterparty credit risk:
TPI's appointed authorised corporate directors for the TPI funds, Smith and Williamson, pay TPI an amount equating annually to 60bps of the value of the assets held within the funds. If the ACD were to cease trading or be unable to fulfil their contractual obligations, the depository bank would take over those obligations and also take over liability for those payments. There is therefore no material counterparty risk to TPI.

v) Non-financial risks

Political:
A change in regime and political party can result in changes to local tax rates, investment attractiveness and other challenges. TPI staff stays a breast of political commentary to ensure that the Company is able to anticipate and plan for changes ahead.

Distribution:
Distribution risks arise from relationship management and concentration across different distribution channels and products. A broad range of distribution changes mitigate against any key dependency on any sales channel.

Competition risk:
There is a risk of losing clients due to poor performance or poor communication. These events can be triggered by failure to change along with the market, the loss of key investment professionals, and poor training. TPI has a policy of recruiting high quality staff and regular reviews of remuneration practices to ensure continuing competitiveness in order to maintain and motivate individuals.

Risks that are not applicable to True Potential Investments include:

- Insurance risk
- Securitisation risk
- Pension obligation risk

5. FCA Remuneration Code Remuneration Policy Statement

TPI has formed a remuneration committee which meets regularly to consider human resource issues relating to Partnership and members, terms and conditions of employment, remuneration and retirement benefits. Within the authority delegated by the Board, the Committee is responsible for approving remuneration policy and in doing so takes into account the pay and conditions across the group. This includes the terms of bonus plans, and individual remuneration packages of senior management and other senior group partners and employees, including all code staff.

The members of the committee during 2016 were D.G. Harrison (Chair), D.Harrison, M.Henderson, N.Johnson, E.Glasgow.

No one individual is involved in decisions relating to his or her own remuneration.

The committee takes full account of TPIs strategic objectives in setting remuneration policy and is mindful of its duties to relevant stakeholders. The committee seeks to preserve stakeholder value by ensuring the successful retention recruitment and motivation of its partners and employees.

Code staff criteria

All partners who are 'senior managers' (that is those responsible for the management of the risks of the business, together with the heads of control functions) and 'risk takers' (those who have, or could have, a material impact on the risks of the firm) and registered SIFs have been classified as Code Staff. The list of Code Staff does not include non-executive and independent non-executive directors because they carry out a supervisory oversight role and do not carry out day to day management of the business and therefore have little or no direct impact on the risk profile of TPI or the organisations response to the risks it is exposed to.

The link between pay and performance for Code Staff

Remuneration is made up of fixed pay (drawings or salary and benefits) and performance related variable pay.

Annual discretionary bonuses are considered by the committee.

Additional discretionary bonuses are only awarded in exceptional circumstances, and must all be approved by the Committee.

Pay is designed to reflect success or failure against a range of competencies which are assessed annually. This reviews competencies for staff covering both financial and non-financial metrics, specific behavioral competencies including compliance matters. When determining compensation, including any variable compensation, managers and Committee will give consideration to:

- Overall firm performance
- Collective performance of the relevant team;
- Individual performance relative to role requirements (including performance against agreed financial and non-financial objectives where relevant) and with specific attention to stand out performance; and

Aggregate remuneration cost for Code staff:

Number of code staff (as at 31/12/2015)	**7**
Aggregate total remuneration (based on current financial year compensation for the relevant 7 code staff)	**£593,000**

- Stock options not included

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