



Equilibrium Investment Management LLP

Risk profile disclosure

Capital resources directive
Basel II pillar 3 disclosure

July 2020

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Introduction

Equilibrium Investment 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 is not subject to consolidated supervision.

All figures in this document are correct at 30 October 2019 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 £100,000 and £15m under our influence. The firm works alongside its sister company, Equilibrium Financial Planning LLP (EFP). Both firms are FCA authorised and regulated, but EFP is an Article 3 exempt firm, and is therefore not required to provide a separate disclosure.

The activities of the two businesses are closely linked, but in general EFP provides financial planning advice, whereas EIM provides investment management services.

For the avoidance of doubt, references in this document to 'the firm' refer to Equilibrium Investment Management LLP (EIM).

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 or Market Risk (including interest rate risk). Likewise, the firm is not required to assess or provide capital for operational risk. However, the firm has separately considered the risks associated with its business and these are summarised 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 EIM does not invest on its own account, credit risk is therefore not deemed to be a consideration.
- Market Risk – this also relates to a 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 and 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 EIM 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, along with EFP, has a positive cash flow 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 – business risk principally takes the form of a fall in assets under management following a market downturn, leading to lower management fees. To mitigate this business risk, we regularly analyse a range of economic scenarios to model the impact of economic downturns to our financial position. In addition, other risks such as loss of key staff, systems failures and reliance on third party investment platforms are

also considered. These specific risks are mitigated through key person insurance, business continuity planning and due diligence.

- Interest Rate Risk – risks arising from fluctuations in interest rates is currently minimal to the business as there is no outstanding loan finance. However, it should be noted that EFP is in the process of applying for finance of £970,000, on a 5 year repayment term in relation to the purchase of fixtures and fittings for a new office premises.
- 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 authorised 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, and to minimise the risk of fraudulent activity, thereby mitigating this area of risk. We have also taken further steps to protect ourselves and our clients from the increasing risks of cyber security by engaging a specialist firm to review our systems and processes and provide us with guidance around improving security.
- 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. Procedures are documented and changes in processes are notified to the team as they occur. 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 five partners who all own a stake in the business and one non-equity partner.

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. Regular board and strategy meetings are held, usually monthly. In addition, Investment Management Committee meetings are held at least monthly or more often when warranted.

The majority of the support team is split into three further areas, namely Prime, Bespoke and Wealth (the latter two in reference to the clients' investment mandate with EIM and dependent upon the size of their portfolio and/or the complexity of their circumstances) and are managed on a day to day basis by a number of managers, Team leaders and deputy Team leaders. A Team leader meeting is held weekly to impart any management decisions made which is subsequently relayed to their various Teams for implementation.

There is also additional support provided by way of marketing, finance, compliance, personnel and reception staff. Departmental meetings are held fortnightly to ensure that all those responsible for specific areas of the firm are kept informed about developments in other departments.

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

Debbie Jukes has overall responsibility for the compliance and MLRO functions. There is an internal compliance Team of three, consisting of one Compliance and Risk Manager and two Compliance Associates. To support the Team, external compliance consultants have also been retained.

Mike Deverell, as Investment Manager, has responsibility for the strategy, research, asset allocation and performance of Equilibrium's standard portfolios. All meetings are minuted and decisions noted. A formal procedure is in place for the monitoring of funds and products. In addition, we have three investment analysts to help strengthen our research and due diligence processes. An external economics consultant also sits on the Investment Management Committee to provide challenge.

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

Partner's compliance reports are completed quarterly basis by our compliance manager covering compliance oversight and anti-money laundering issues in conjunction with our external compliance consultants. These reports are presented to the management Team for consideration and action as appropriate at the board meetings.

Risk and Audit Committee

Consisting of the Compliance Oversight officer, Managing Partner, Compliance and Risk Manager and Non-executive Partner Chris Brindley. The committee sits three times a year and will review the Risk Register for new and emerging risks as well as assessing current mitigation strategies.

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, correct at the firm's year end of 31st August 2019.

	Tier 1 Capital
Gross	£911,000
Less Innovative Tier 1 capital	-
Deductions	-
Net	£911,000

	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*	£911,000
Deductions (fixed overhead requirement & additional capital)	£127,000
Net surplus	£784,000

[*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, along with EFP, acts as investment and wealth manager to a variety of high net worth individuals. There are no plans to change this business model.

The firm operates on an adviser charging and investment manager fee basis with payment for our services made directly to us by the client or facilitated by the product provider.

The majority of our fees are facilitated directly by the platform provider and, as a result, the risks attaching to the firm are negligible. The principal risks are of very persistent and significant underperformance resulting in loss of clients and falling revenues.

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.

Remuneration code disclosure

Firm name	Equilibrium Investment Management LLP						
Remuneration Disclosure	Year ended 31 August 2019						
<p>Overview of decision-making process –</p> <ul style="list-style-type: none"> • Remuneration Committee: No separate remuneration committee exists; this function is instead undertaken by the governing body of the firm. • External consultants: No external consultants have been engaged on remuneration matters. • Personal reviews of the partners and other Code Staff are carried out at least annually to assess their performance in meeting individual and strategic objectives. These reviews are reflected in pay reviews as well as in awards of variable pay; 							
<p>Pay and performance –</p> <p>The policy in relation to the various elements of remuneration structures for executive directors and other Code Staff is set out below –</p> <ol style="list-style-type: none"> a) Basic pay for partners and other Code Staff will be market related, ensuring a competitive salary that fairly reflects the market rate, skill, experience and expertise for the role. b) Variable remuneration of partners and other Code Staff is primarily based on the firm’s financial and service performance to motivate and reward success although an element may be based on the achievement of personal objectives and key performance measures. c) All Code Staff have the benefit of being members of the group Income Protection and Life Cover schemes 							
<p>Aggregate remuneration data:</p> <p>Details of remuneration paid to Partners and other Code Staff (11 in total during the period) are as follows:</p> <table> <tr> <td>Total fixed pay</td> <td>£ 504,313</td> </tr> <tr> <td>Total variable pay</td> <td>£ <u>771,191</u></td> </tr> <tr> <td>Total</td> <td>£1,311,504</td> </tr> </table>		Total fixed pay	£ 504,313	Total variable pay	£ <u>771,191</u>	Total	£1,311,504
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