

# STONEHAGE FLEMING (UK) LIMITED

## Capital Requirements Regulation Statement

Year Ending 31 March 2020



NOW AND FOR FUTURE GENERATIONS

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## STONEHAGE FLEMING (UK) LIMITED CAPITAL REQUIREMENTS REGULATION STATEMENT

This document provides the disclosures which are required of the Stonehage Fleming UK regulated businesses under Capital Requirements Directive IV (CRD IV), which consists of Capital Requirements Directive (2013/36/EU)(CRD) and the Capital Requirements Regulation (575/2013) (CRR).

### SCOPE OF APPLICATION

This document applies to all entities within the consolidated UK Stonehage Fleming structure, which are regulated by the Financial Conduct Authority (“FCA”). There are three regulated companies, all of which are wholly owned by the holding company Stonehage Fleming (UK) Limited (“SFUK”):

- Stonehage Fleming Investment Management Limited - provides management of multi-asset or single asset portfolios as part of the provision of discretionary and advisory management services for ultra-high net worth individuals
- Stonehage Fleming Advisory Limited - provides corporate finance advice to entrepreneurs and businesses on a long term or transactional basis
- Stonehage Fleming Private Equity Limited – provides management of private equity investment vehicles

Together the holding company and the subsidiaries are referred to as “the UK Group”, which is subject to consolidated supervision by the FCA. The following table provides the FCA reference numbers and relevant Prudential Rules for each firm.

COMPANY	FCA REFERENCE NO	PRUDENTIAL RULES
<i>UK Parent Company</i>		
Stonehage Fleming (UK) Limited	XXS01257	N/A
<i>Subsidiary Companies</i>		
Stonehage Fleming Investment Management Limited*	194382	IFPRU
Stonehage Fleming Advisory Limited	194929	IFPRU
Stonehage Fleming Private Equity Limited	401977	IFPRU

\*Also regulated by the Financial Sector Conduct Authority of South Africa in respect of our investment activities for clients in South Africa.

The disclosures in this statement are made on a consolidated basis by SFUK annually in December, using Stonehage Fleming Group’s (the Group) year end date of 31 March. Additional disclosures will be made if there is a material change in the nature of the Group’s risk profile during any particular year.

### MEDIA AND LOCATION OF DISCLOSURES

These disclosures will be published on the Group website under Legal and Regulatory Information.

### OVERVIEW OF DISCLOSURES

Under CRD IV, the UK Group is required to disclose information in accordance with the FCA’s rules for any firm within the scope of CRD IV. In addition, the FCA has continued to apply to certain firms, disclosure requirements contained within the prior iteration of the Capital Requirements Directive, known as ‘CRD III’. The disclosures required by these regulatory provisions apply to all regulated firms within the UK Group.

The FCA's General Prudential Sourcebook ('GENPRU'), and Prudential Sourcebook for Investment Firms ('IFPRU') implement the CRD and other prudential requirements in the UK ('Prudential Rules'). These rules are built on three pillars:

PILLAR 1	PILLAR 2	PILLAR 3
<ul style="list-style-type: none"> <li>Specifies the minimum capital amount the UK Group needs to hold as set against its market, credit and operational risk profile</li> <li>Often referred to as the minimum capital requirement</li> </ul>	<ul style="list-style-type: none"> <li>Seeks to enhance the link between a firm's risk profile, its risk management and risk mitigation systems, and its capital planning</li> <li>This is achieved by two separate processes: (i) an Internal Capital Adequacy Assessment Process (ICAAP) and (ii) a supervisory review and evaluation by the FCA</li> </ul>	<ul style="list-style-type: none"> <li>This complements Pillars 1 &amp; 2 and aims to improve market discipline by requiring firms to disclose certain information about their underlying (i) risk management control (ii) capital position and (iii) remuneration policy for certain categories of employees</li> </ul>

## RISK MANAGEMENT CONTROL

SFUK, as the parent company of firms that are authorised by the FCA, is required to make public its risk management objectives and policies in accordance with the requirements of Pillar 3.

Responsibility for oversight of the strategic direction of the regulated firms contained within the UK Group sits with the SFUK board. In addition to the matters reserved for this board it also has the benefit of a number of wider Stonehage Fleming Group committees, including Group Audit, Remuneration and Risk & Compliance Committees.

Risk management is also supported by the boards of each regulated subsidiary, together with a number of wider UK committees which assist the SFUK board in providing an appropriate and balanced governance structure for the UK Group.

The formal governance structure is supported by a number of key policies which assist the business in providing a clearly articulated risk management environment. In addition, the SFUK board has approved local risk and business management policies designed to facilitate adherence to relevant laws, standards, principles and rules (including those of the FCA). These are reviewed on an on-going basis and updated as required.

Our risk management framework is firmly embedded within our management and governance processes, and incorporates a number of internal controls processes. The framework forms an integral part of Stonehage Fleming's culture and is reviewed every year and we look to improve it as needed. The framework assists in the identification, evaluation and management of principal risks and is designed to manage rather than eliminate risk. The board believes the framework provides reasonable, but not absolute, assurance against material misstatement or loss.

## RISK CATEGORIES AND DEFINITIONS

The UK Group has a detailed risk register in place that captures the principal business risks categorised as follows:

RISK CATEGORY	PRINCIPAL RISKS	COMMENTARY
Market	Economic	As with any business external economic factors can have an impact whether on the valuation of client assets or the financial position of the UK Group e.g. exchange rate movements.
Business	Investment Performance Management of tax issues BREXIT Business Continuity Plan Succession & Key Person Risk Client Concentration Reputation Regulatory Business Planning Conduct & Culture Financial Crime	Business risk includes both internal and external influences on the UK Group's operating model such as the meeting of regulatory obligations, the financial position to meet the running costs of the business, the management and retention of our people resources and client related risks.
Credit	Counterparty failure	Credit risk includes the risk of financial loss arising from a counterparty failing to meet its obligations to repay outstanding amounts as they fall due. UK Group companies have bank accounts at major reputable credit institutions, and the credit risk on these exposures is considered as very low. The UK Group follows the simplified standard approach to credit risk.
Operational	Failure of Processes and Controls Cybercrime and Fraud Conflicts Poor Record Keeping Client Risk Profiling and Investment Suitability Outsourcing failure Fund Management and Administration processes	Operational risk includes the risk of losses from inadequate or failed internal and external systems, processes and procedures, whether conducted by Stonehage Fleming employees or outsourced service providers, also relating to the IT infrastructure and security of the business The Company is subject to the Fixed Overhead Requirement and has an operational risk capital charge as set out in the regulatory capital section.

The regulated entities and delegated subcommittee under the SFUK board review the risk register at the quarterly board meetings to confirm the register reflects relevant material risks and to ensure any mitigating controls are in place and effective and any remedial actions have been completed.

## CAPITAL ADEQUACY

The SFUK board reviews the overall capital requirements for the UK Group during a minimum of three board meetings a year. There are no differences in the basis of consolidation for accounting and prudential purposes. The UK Group's principal subsidiaries and investments in joint ventures and associates are detailed in its consolidated financial statements.

The primary mechanism used to manage capital is:

- annual assessment of identified risks (or more frequently if there is any significant change to the UK Group's business activities or procedures and/or if there is a material change in the nature of the UK Group's risk profile)
- stress and scenario testing based on forward looking forecasts and the UK Group's risk appetite

As of 1 January 2014, the FCA regulated firms within the UK Group became subject to CRD IV. As a result of this, the UK Group's regulated firms are subject to FCA's Prudential Sourcebook for Investment Firms ("IFPRU"). The UK Group is required regularly to assess if it is likely to become a significant IFPRU firm. The UK Group has performed the assessment for 2020 and has confirmed that it is not a significant IFPRU firm; this assessment is contained in the ICAAP.

## CORE CAPITAL POSITION

The audited consolidated shareholders' funds of SFUK at 31 March 2020 were as follows:

CAPITAL ITEM	£'000
Called up share capital	4,486
Capital redemption reserve	3,750
<b>Other distributable reserve</b>	419
Profit and loss account	9,084
Total shareholders' funds	<b>17,739</b>

## REGULATORY CAPITAL POSITION

As required under FCA rules, the UK Group maintains an ICAAP, which represents the UK Group's view of the capital required both to meet regulatory needs and to manage risks encountered across the UK Group's businesses.

The main features of the UK Group's capital resources (based on the audited consolidated financial statements as at 31 March 2020) for regulatory capital assessment purposes are as follows:

CAPITAL ITEM	£'000
Total Tier 1 Capital	17,739
Comprising:	
Share capital (called up)	4,486
Other distributable reserve	419
Capital redemption reserve	3,750
Retained earnings	9,084
Additional Tier 1 Capital	
Tier 1 Deduction: Deferred tax asset	(851)
Tier 1 Deduction: Investments in joint ventures and associates	(5)
Total Tier 2 Capital	0
Tier 2 Deduction:	(0)
Total Tier 1 & Tier 2 Capital after deductions (Own Funds)	<b>16,883</b>

SFUK maintained a surplus of regulatory capital at all times during the year.

CAPITAL ITEM	£'000
Regulatory Capital (Own Funds)	16,883
Pillar 1 Requirement	(7,218)
Individual Capital Guidance	(1,949)
Pillar 1 Surplus	<b>7,716</b>
Pillar 2 Requirement	(0)
ICAAP Surplus	<b>7,716</b>

The UK Group monitors the above capital items and uses various strategies to manage the risks which may include:

- modifying or ceasing activities that have an adverse effect upon the UK Group's regulatory capital requirement
- reviewing the UK Group's risk appetite and
- building stronger controls to reduce residual risk

## REMUNERATION DISCLOSURES

Under the FCA's Remuneration Code (the "Code"), the UK Group is classified as Tier 3, which allows it to dis-apply some of the technical requirements of the Code and proportionately apply the Code's rules and principles in establishing the UK Group's remuneration policy.

The Code requires the UK Group to consider its processes and procedures for those senior employees who operate within our regulated companies who are covered by the Code. This includes senior management and any employees whose activities have a material impact upon the consolidated UK Group's risk profile.

The UK Group is satisfied that the policies in place are appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

## CODE STAFF CRITERIA

It has been determined that senior managers, heads of significant business functions and heads of support and control functions within the UK Group are to be classified as Code Staff. This includes senior managers of the UK parent company SFUK and of the underlying UK regulated businesses.

It also includes any employee within Stonehage Fleming UK who receives a fixed plus variable package that takes them into the same remuneration bracket as senior managers and risk takers.

## DECISION-MAKING PROCESS FOR REMUNERATION POLICY

A clear and transparent Remuneration Policy is essential for employees, clients and shareholders to be confident that the governance of remuneration is consistent with best practice and promotes sound and effective risk management.

The Stonehage Fleming Family & Partners Limited Remuneration Committee (Remcom) has overall responsibility for all matters concerning the remuneration of employees. Remcom consults the SFUK board in relation to remuneration matters relating to UK employees.

Three Remcom meetings take place each year.

This independent sub-committee assists the SFUK board in determining:

- appointments to subsidiary boards, and special contracts arising from the appointment, retirement, resignation or dismissal of partners
- appointments of senior management, and succession planning and guidance on the composition of remuneration packages
- remuneration, including compliance with regulatory remuneration requirements and approval of the Remuneration Policy and disclosures
- incentive schemes and
- any significant changes in human resource policies.

Group Remcom addresses all matters relating to remuneration and seeks to ensure consistent and sound policies across the Stonehage Fleming Group, including for those subsidiaries that are subject to the FCA Remuneration Code and other relevant remuneration principles. This responsibility includes:

- reviewing the list of Code Staff
- reviewing the Code Staff remuneration details and
- reviewing and approving annually the Stonehage Fleming Remuneration Policy Statement to ensure adherence to the basic principles set out in the FCA Remuneration Code.



A key objective is to ensure that remuneration arrangements do not raise the level of risk by encouraging inappropriate practices or provide incentives to any employees, which would encourage them to act in any way which could compromise the best interests of clients.

Stonehage Fleming recognises the importance of an effective remuneration policy in order to attract, motivate and retain individuals of the necessary ability and experience, and to reward individuals both on an annual basis, and over the long term, for their contributions to the success of the underlying businesses and Stonehage Fleming overall. A formal performance appraisal process is carried out across Stonehage Fleming annually and individuals are evaluated against the personal objectives they have been set for the year under review and six key competencies (client satisfaction, teamwork, technical, compliance, leadership and communication, and project skills).

In setting Stonehage Fleming's overall remuneration policy, Remcom takes account of the Group's strategic objectives and is mindful of its duties to shareholders and other stakeholders. Remcom seeks to preserve and enhance shareholder value by ensuring the successful recruitment, retention and motivation of employees.

#### INFORMATION ON THE LINK BETWEEN PAY AND PERFORMANCE FOR CODE STAFF

Employee remuneration consists of both fixed and variable elements. The fixed element comprises basic salary, benefits (such as medical insurance, life insurance and income protection), and pension entitlements. The variable element comprises an annual bonus and long term incentive awards which involve equity options. On an annual basis the business allocates a fixed proportion of the annual profits for the payment of bonuses. The bonus allocation reflects, inter alia, the performance of the individual employee relative to the business and personal objectives set for the performance year and is reviewed as part of the annual appraisal process. A rigorous process takes place with the Senior Management team and HR reviewing the annual employee evaluation when considering the proposed bonus allocation.

Employee equity ownership is considered to be an important element of the remuneration package for senior employees and this is achieved through the award of Stonehage Fleming equity options. The equity options have to be held for three years before they can be exercised at which point the value attributable to the employee is the capital value less the original value of the award.

The amount available for the variable element of the annual bonus pot is approved by Remcom. A sub-committee of Stonehage Fleming (UK) Limited reviews the bonus recommendations for UK employees and the recommendations are then presented to Remcom for their final review and approval.

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

## AGGREGATE REMUNERATION (FIXED AND VARIABLE) COSTS FOR CODE STAFF

FOR THE YEAR ENDING 31 MARCH 2020	SENIOR MANAGEMENT
NUMBER OF CODE STAFF	25
AGGREGATE REMUNERATION	8,172,757
FIXED REMUNERATION	4,758,691
VARIABLE REMUNERATION	3,414,066
<i>Cash</i>	<i>3,093,499</i>
<i>Share Incentive Awards</i>	<i>320,567</i>
SIGN ON AND SEVERANCE PAYMENTS	173,800
HIGHEST SEVERANCE AWARD	-

### Definitions:

- Fixed remuneration consists of base salaries, allowances and pension contributions
- Variable remuneration consists of annual bonus and equity option awards valued at the date of grant using Black & Scholes pricing option model
- Senior Management consists of the Chair of the Group committees, the directors of Stonehage Fleming (UK) Limited and its subsidiaries, other managers within the UK Group and senior support staff e.g. Finance and Compliance
- Code Staff remuneration is 100% of members remuneration. It is not pro-rated to reflect the time spent in relation to individuals role as Code Staff as opposed to their non-Code Staff responsibilities.

