

LOOMIS SAYLES INVESTMENTS LIMITED
PILLAR 3 DISCLOSURE STATEMENT
April 2018

Introduction and Purpose of Pillar 3

The Pillar 3 disclosure of Loomis Sayles Investments Limited (“LSIL” or “the Firm”) is set out below as required by the “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (“BIPRU”) specifically BIPRU 11.3.3R of the Financial Conduct Authority (the “FCA”). This is a requirement flowing from the UK’s Capital Requirements Directive (“CRD”) III implementing regulations, which represented the European Union’s application of the Basel Capital Accord. The Firm is not subject to CRD but is subject to the UK’s implementation regulations of CRD prior to CRD IV. The regulatory aim of the disclosures is to improve market discipline.

The FCA framework consists of three ‘Pillars’:

- Pillar 1 sets out the minimum capital amount that meets the firm’s credit, market and operational risk capital requirement;
- Pillar 2 requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet the pillar 1 requirements, and further determine whether it should apply additional capital, processes, strategies or systems to cover any other risks that it may be exposed to; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet LSIL’s Pillar 3 obligations. Pillar 3 disclosures will be issued on an annual basis after the Firm’s 31 December year end and published on the Firm’s web site or alternatively on a suitable hosting website as determined by the Firm.

The Firm is permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the Firm. In addition, the Firm may omit required disclosures where it regards the information as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine the Firm’s competitive position. Information is considered to be confidential where there are obligations binding the Firm to confidentiality with our customers, suppliers and counterparties. In the event that any information is omitted, we shall disclose such and explain the grounds on which it has been omitted.

The information contained in this document has not been audited by the Firm’s external auditors, as this is not required, and it does not constitute any form of financial statement. It must not be relied upon in making any judgment of the Firm.

Scope and application of the requirements

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a BIPRU Firm by the FCA for capital purposes and is not authorised to hold client money or to take proprietary trading positions.

The Firm is the only entity covered by the internal capital adequacy assessment process (“ICAAP”). While the Firm forms part of a UK Consolidation Group, that Group is comprised solely of other firms which are not subject to SYSC 19A. Thus, the Firm does not report on a consolidated basis for accounting and prudential purposes, and applies the BIPRU Remuneration Code and the proportionality rules as set out in the related guidance only to LSIL.

Risk management

The Firm seeks to mitigate risk by implementing sound systems and controls and corporate governance arrangements. The Firm has clear segregation of duties between investment, trading, settlement and portfolio administration. The Firm has identified the following risk categories of the overall Pillar 2 rule (GENPRU 1.2.30R) as relevant: Credit, Market, Operational, Business and Group, and Liquidity. The greatest risks are considered to be **Business and Group Risk, Operational Risk, Credit Risk, and Liquidity Risk.**

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The Board of Directors takes overall responsibility for this process and the fundamental risk appetite of the Firm. Annually, the Board formally reviews the risks, controls and other risk mitigation arrangements and assesses their effectiveness. Where the Board identifies material risks, it considers the financial impact of these risks as part of the Firm's business planning and capital management, and will evaluate whether the amount of regulatory capital is adequate.

Senior management has responsibility for the implementation and enforcement of the Firm's risk principles. Senior management meet on a regular basis and discuss current projections for profitability, cash flow, business planning and risk management. Senior management address the Firm's risks through a framework of policy and procedures having regard to the relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required. Management accounts demonstrate the adequacy of the firm's regulatory capital and are reviewed on a regular basis. Action will be taken where risks are identified which fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the firm's mitigating controls.

The Firm has adopted the structured approach to the calculation of its ICAAP capital resources requirement, as outlined in the Committee of European Banking Supervisors Paper, January 2006. The ICAAP assessment is reviewed by the Board and amended where necessary on an annual basis or when a material change to the business occurs.

For **Business and Group Risk**, the Firm has identified several scenarios which may have a detrimental impact on the business, including reputational risks, and subjected them to analysis and a stress test. The results inform the Firm on its capital planning forecasts and proposed management actions to ensure that the Firm holds, at all times, adequate Regulatory Capital. The existing financial planning process has been integrated into the ICAAP to develop forward looking financial forecasts.

For **Operational Risk**, the Firm has assessed if Pillar 2 capital is required taking into account its mitigation. The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect. The Firm has identified a number of key operational risks to manage. These relate to business continuity, systems (including IT) failure, failure of a third party provider, and potential for serious regulatory breaches. Appropriate policies are in place to address these risks, including maintaining professional indemnity insurance, providing compliance training for employees and business continuity planning.

For **Credit Risk**, the Firm is primarily exposed to credit risk from the risk of its transfer pricing cost plus ("Cost+") system failing. The Firm benefits from a Cost+ arrangement from its parent company, Loomis, Sayles & Company, L.P., memorialized in a formal agreement. In the event that the agreement with its parent company terminates for any reason, the Firm will initiate an orderly winding-down of its business. Accordingly, the Firm will always hold at least capital equivalent to its wind-down costs. The Firm uses the simplified standardised approach detailed in BIPRU 3.5.5 of the FCA Handbook when calculating risk weighted exposures of 20% (Cash in Bank), 20% (Inter Company Receivable) and 100% in respect of its other assets. The Firm's credit risk requirement calculated as 8% of risk weighted exposure amounts is £119,000.

For **Liquidity Risk**, the Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario. The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under normal business conditions. The cash position of the Firm is monitored by the senior management on a monthly basis.

For **Market Risk**, the Firm has non-trading book potential exposure only (i.e., only to assets or liabilities held in foreign currency) on the Firm's balance sheet. The Firm's market risk requirement and foreign currency position risk requirement in respect of such exposures is £170,000.

Other risk types have been considered (such as pension obligation risk), but have either been deemed immaterial or not applicable.

Regulatory capital

The Firm is a private company limited by shares and its capital arrangements are established in its Articles of Association. Its capital is summarised as follows:

| | 31/12/17 £000 |
|-------------------------------------|--------------------------|
| Tier 1 permanent share capital* | £1,516 |
| Tier 2 capital | 0 |
| Tier 3 capital | 0 |
| Deductions from Tiers 1 and 2 | £3 |
| Total capital resources | £1,513 |
| *No hybrid tier one capital is held | |

BIPRU: The Firm is subject to the fixed overhead requirement ("FOR") and is not required to calculate an operational risk capital charge, though it considers this as part of its process to identify its required level of risk-based capital. As discussed above, the Firm is a limited licence firm and as such its capital requirements are the higher of:

- €50,000; and
- The higher of:
 - the FOR, or
 - the sum of the market & credit risk requirements.

The FOR is calculated, in accordance with FCA rules, based on the Firm's previous year's audited expenditure. The Firm has adopted the standardised approach to credit and market risk and the above figures have been produced on that basis. The Firm is not subject to an operational risk requirement. The firm's FOR is £953,000. The Firm's base requirement and the sum of its market and credit risk requirements is less than its fixed overhead requirement. Accordingly, the Firm's Pillar 1 capital requirement is its fixed overhead requirement.

Under Pillar 2 of the FCA capital requirements framework, the Firm has undertaken an assessment of the adequacy of capital based upon all the risks to which the business is exposed (i.e., the ICAAP). This analysis concluded that no additional capital is required in excess of the Firm's Pillar 1 requirement. The Board also believes that there is sufficient capital to support future activities on the basis that no material changes to the Firm's business model are anticipated.

Remuneration Code Disclosure

The Firm is authorised and regulated by the Financial Conduct Authority as a Limited Licence Firm and is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the SYSC Sourcebook (19C) of the FCA's Handbook. The Remuneration Code covers an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

Our policy is designed to ensure that we comply with the Remuneration Code and to ensure that our compensation arrangements:

- are consistent with and promote sound and effective risk management;
- do not encourage excessive risk taking;
- include measures to avoid conflicts of interest; and
- are in line with the Firm's business strategy, objectives, values and long-term interests.

Proportionality

The European remuneration provisions include a principle of proportionality. The FCA have sought to apply proportionality in the first instance by categorising firms into three proportionality levels. The Firm falls within the FCA's third proportionality level and as such this disclosure is made in line with the requirements for a Level Three BIPRU Firm.

Application of the requirements

We are required to disclose certain information on at least an annual basis regarding our remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the Firm (the "Code Staff"). Our disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities.

LSIL believes that its remuneration arrangements do not encourage inappropriate risk taking. This is due to the features inherent in its business model, such as separation of key functions, and the key elements of its compensation procedures. Our policy is designed to ensure that the Firm complies with the Remuneration Code and our compensation arrangements:

1. are consistent with and promote sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest; and
4. are in line with the Firm's business strategy, objectives, values and long-term interests.

With respect to the **decision-making process used for determining the Firm's remuneration policy**, including the use of external benchmarking consultants, the Firm's policy has been agreed to by senior management in line with the principles laid down by the FCA. Due to the size, nature and complexity of the Firm, the Firm is not required to appoint an independent remuneration committee. To ensure that the Firm provides competitive compensation across all job functions, the Firm participates in a study by an external consultant firm. The study rates compensation offered by investment management firms, helping to properly benchmark employees and providing assurance that the Firm's compensation structure remains competitive in the marketplace. The Firm's policy will be reviewed as part of an annual compliance review process, or following a significant change to the business that would require an update to its internal capital adequacy assessment.

With respect to the **link between pay and performance**, a bonus formula is created for each position. Formulas for investment professionals are based upon product performance as well as firm, department, and personal performance. Investment management at the Firm is team based, meaning that investment professionals are assessed on their contribution to the team's effort and results. Formulas for non-investment professionals are based upon a sliding scale of personal and firm performance. Senior management bonuses have a heavier weighting on firm performance. Personal performance generally

takes into consideration effectiveness, attitude, motivation and contribution to the team process, among other things.

Aggregate quantitative information on remuneration, broken down by business area and by senior management and members of staff whose actions have a material impact on the risk profile of the Firm. LSIL considers that there is only one business area within the Firm, which is investment management and the associated support and administration functions. In accordance with CRD III and CEBS guidance, the Firm takes a proportionate approach to its Remuneration Code disclosures in line with the nature, scale and complexity of the Firm. The Firm may omit required disclosures where it believes that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data. As such, the Firm has chosen not to disclose aggregate remuneration figures in regards to the remuneration of the three Code Staff identified by the Firm's Policy, all of whom are senior management. With respect to the Firm's total staff costs and the aggregate remuneration paid to all of the Firm's members in 2017, please refer to the audited financial statements of the Firm for the year ended 31 December 2017.