



## **Setanta Asset Management Limited**

### **Capital Requirements Directive Disclosure**

**June 2015**

#### **BACKGROUND & SCOPE OF DIRECTIVE REQUIREMENTS**

Setanta Asset Management Limited (Setanta) is regulated by the Central Bank of Ireland as an investment firm authorised to carry out the services of portfolio management and the reception and transmission of orders in relation to one or more financial instruments.

Investment firms, such as Setanta, are required to comply with the Capital Requirement Directive (CRD) as transposed into Irish law.

There are three key pillars in the CRD:

**Pillar 1** sets out a methodology for the calculation of investment firms' minimum regulatory capital.

**Pillar 2** requires firms to fully assess their risks and to ensure there is a practical link between their risk profile and the capital they maintain in accordance with their internal capital adequacy assessment process.

**Pillar 3** obliges firms to publicly disclose information concerning their capital, risk exposures and risk assessment processes.

According to the new Capital Requirement Directive (CRD IV) Setanta is no longer subject to the Pillar III disclosure requirement. However, the Central Bank, of Ireland expects firms to act with an appropriate level of transparency in its operations.

This document represents the Firm's transparency disclosure which replaces the Pillar 3 obligation.

## **RISK MANAGEMENT OBJECTIVES & POLICIES**

### **Risk Management Policy**

Setanta's risk policy has been approved by the Board of Directors. The firm's risk management framework stated in the risk policy is based on:

- An organisational structure with segregation of functions;
- Documented policies and procedures;
- An independent risk management function; and
- An oversight function by the Board of Directors and management.

Management are responsible for ensuring that appropriate adequate risk management policies and procedures are established, implemented, documented and maintained, in line with good business practice, and to meet all legal and regulatory requirements.

Setanta's Head of Risk & Compliance, reporting to the Managing Director has operational responsibility for assisting the business in identifying, managing, controlling and communicating risks in respect of the firm. In addition, each business function/department head is responsible for identifying and owning the operational risks and controls within their business area.

The Enterprise Risk Assessor (ERA) system is the main tool used by management to assess the risks borne by Setanta relating to the firm's activities. Specific investment management risks are included in Setanta's ERA assessment by linking those risks to the predefined ERA risks.

An Internal Capital Adequacy Assessment (ICAAP) is prepared by management on a quarterly basis using the ERA system and scenario stress tests based on historical data. The ICAAP is presented to the Board of Directors for review and approval on an annual basis. Setanta reviews a number of market, credit and operational risks under its ICAAP in accordance with ERA ranges for risk likelihoods, consequences and ratings with respect to annual pre-tax gross income should the risks occur. The ICAAP is a fundamental part of Setanta's procedures to ensure it has adequate capital and controls to support the firm's current and future activities.

In addition to quarterly ICAAP reviews, management reports to the Board of Directors annually and more frequently if the need arises, in respect of an overall ERA risk review and compliance with the detailed risk management policy and procedures of the company.

Setanta reviews its risk profile and capital resources on an ongoing basis having regard to the nature and scale of its business, the dynamic risks to which it is exposed and its planning horizon to ensure at all times that the firm has adequate capital to meet the firm's business objectives and regulatory capital requirements while maintaining client and market confidence. In particular, management consider the firm's Pillar 1 & Pillar 2 capital requirements, the firm's ICAAP and capital adequacy in its decision making processes, including:

- The firm's business plan
- The firm's budget
- Capital requirements (dividend and capital reviews)

- Other relevant management issues and decisions

## **RISK EXPOSURES**

Setanta's risks are typical for an investment manager that does not deal on own account. The main risk categories identified through the firm's risk assessment process are market risk, credit risk and operational risk.

### **Market Risk**

Market risk relates to the impact that changes in the market value of securities/financial instruments managed by Setanta have on the management fees and income of the firm.

This risk can predominantly materialise due to fluctuations in market prices, foreign exchange rates and interest rates. This could result in a fall in the value of assets under management with a consequential reduction in management fees. Market risk could also equate to a poor relative investment performance compared to competitors and/or the potential loss of new and/or existing clients, although most of the firm's clients, like Setanta, are part of the Great West Life Group.

Ongoing quantitative performance assessment and individual fund manager performance reviews in addition to quarterly performance and management accounts reviews by the Board of Directors ensure market risk is effectively managed and controlled in accordance with market leading practices.

### **Credit Risk**

This is the risk of financial loss due to the firm's clients being unable to pay management fees to Setanta.

The majority of Setanta's management fees are prepaid by the firm's clients most of whom are part of the Great West Life Group. Great-West Lifeco Inc., the publicly quoted parent of the Great West Life Group is rated A+. Monthly management reviews of management accounts that note fees due to the firm and good client relations within the Great West Life Group further mitigate this risk.

The vast majority of Setanta's assets and liabilities are denominated in Euro thereby ensuring foreign exchange fluctuations have a very limited impact upon credit risk and the firm's assets.

### **Operational Risk**

Operational risk relates to the loss resulting from inadequate or failed internal processes, people and systems, or from external events.

A broad range of risks fall into the category of operational risk. These include human resource risk, legal & regulatory risk, systems risk, liquidity risk, pension risk, client concentration/competitive risk and reputational risk. Along with all other risks, these risks are monitored, reviewed and controlled on an ongoing basis. Measures such as internal policies and procedures, process controls, regular reviews, strategic and business continuity planning and finance controls reduce and mitigate the potential impact of such risks. Also, the fact that the great majority of Setanta's clients are companies within the Great West Life Group further mitigates this risk.

## **CAPITAL REQUIREMENTS & RESOURCES**

Setanta uses the Standardised Approach to calculate its CRD Pillar 1 Capital Requirement.

As at 31 December 2015 Setanta's regulatory capital requirement is as follows:

<b>CRD Pillar 1 capital requirement (fixed overhead)</b>	<b>€1.9m</b>
<b>CRD Pillar 2 ICAAP capital requirement</b>	<b>€2.5m</b>
<b>CRD minimum regulatory capital amount (Higher of Pillar 1 &amp; Pillar 2 ICAAP)</b>	<b>€2.5m</b>

As at 31 December Setanta's regulatory capital resources are as follows:

<b>Regulatory Capital on Reserve (Shareholder Assets)</b>	<b>€6.7m</b>
<b>Less CRD minimum regulatory capital requirement</b>	<b><u>(€2.5m)</u></b>
<b>Excess capital as at 31 December 2015 based on Q4 ICAAP</b>	<b>€4.2m</b>
<b>% excess capital as at 30 December 2015</b>	<b>+249%</b>

If the Pillar 1 capital requirement is higher than the outcome of the Pillar 2 ICAAP assessment, Setanta would maintain this higher Pillar 1 capital requirement. The Firm is satisfied that it has adequate capital resources to meet its business objectives and comply with the requirements of the CRD.

## **REMUNERATION**

Setanta has implemented a Remuneration Policy, in accordance with the requirements of the CRD, which is reviewed by the Setanta Board on an annual basis.

## **LOCATION AND VERIFICATION**

Management has reviewed and approved the disclosures made in this document and believes that the publication of these disclosures on Setanta's website [www.setanta-asset.com](http://www.setanta-asset.com) is the most appropriate medium. Subject to certain conditions, the CRD permits the omission of one or more of the required disclosures on materiality, confidentiality or proprietary grounds.

This disclosure is based on financial data as at 31<sup>st</sup> of December 2015 and does not constitute any form of financial statement. This document has not been subject to audit by the Company's external auditors.

This disclosure is published on the Setanta website: [www.setanta-asset.com/pages/capital-requirements](http://www.setanta-asset.com/pages/capital-requirements)

## **BASIS AND FREQUENCY OF DISCLOSURES**

Unless there is a foreseeable and significant risk or event that would detrimentally impact the firm's ICAAP and regulatory capital requirements, in accordance with the Pillar 2 risk analysis & stress tests, the disclosures set out herein will be updated at a minimum on an annual basis.

For more detail in relation to the foregoing, please contact Setanta at [compliance@setanta-asset.com](mailto:compliance@setanta-asset.com)

5 October 2015