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1. INTRODUCTION

1.1 Scope of Application

Ingenious Capital Management Limited (**ICML**) is authorised and regulated by the Financial Conduct Authority (**FCA**).

ICML is a wholly owned subsidiary of Ingenious Capital Management Holdings Limited (**ICMH**).

ICML is not considered to be a Financial Holding Company or a Parent Institution (as defined in the FCA Rules), nor is it a subsidiary of such an entity. The FCA's Rules do not require ICML's financial position to be consolidated with or deducted from ICMH for regulatory capital purposes[2]. ICML does not have any subsidiary undertakings subject to the Capital Requirements Directive (**CRD**).

This document focuses on ICML and the additional capital amount that may be required is based on an analysis of the potential exposure to risks within ICML.

1.2 Regulatory Requirements

ICML is categorised as a BIPRU firm and as a Collective Portfolio Management Investment Firm (a CPMI) which is able to control, but not hold client money. ICML is subject to:

- the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU);
- the General Prudential Sourcebook (GENPRU); and
- the prudential rules for Alternative Investment Fund Managers per the Interim Prudential sourcebook for Investment Businesses Chapter 11 (IPRU (Inv) Chapter 11).

The prudential rules that ICML is subject to are based on three 'pillars':

- Pillar I: sets out the minimum amount of capital required to meet ICML's basic regulatory obligations;
- Pillar II: requires ICML to calculate how much (if any) additional capital it should maintain to mitigate other prudential risks (e.g. credit risk, market risk and operational risk) that are specific to ICML and its business model; and
- Pillar III: requires ICML to disclose to market participants key information about its underlying risks, the risk management controls that are in place and ICML's capital position. Pillar III also incorporates the provisions of FCA's Systems and Controls related to remuneration.

1.3 Date of Disclosure

This disclosure is effective from 30 August 2018. The financial information is based on the firm's audited statutory accounts as at 30 June 2017 (audited).

2. RISK MANAGEMENT

2.1 Methodology

The firm's risk management objective is to mitigate risk, as it is defined within a risk management framework and where it is in line with the firm's business strategy. The Board of Directors of ICML (the **Board**) has adopted an approach to risk management which is appropriate, given the size, scale and the complexity of the firm.

ICML has a Risk Management Function ("RM Function") which is responsible for ensuring that there are adequate policies and procedures in place to identify, monitor and manage the investment risks in ICML's discretionary managed services.

The risk management process can be considered in terms of the following constituent elements:

- Identification
- Assessment Decision
- Mitigation
- Monitoring
- Reporting

2.2 Responsibilities

The Board is responsible for establishing the risk management strategy of ICML and for overseeing the overall risk infrastructure. It decides on and approves each of the firm's risk management policies. The Board is further supported by the Audit and Risk Committee, the Risk Management Function (constituted within a Risk Management and Valuation Committee) and the Compliance department.

ICML's business divisional heads are accountable for: identifying and assessing risks in their respective business areas; ensuring that there are effective controls to manage risks in accordance with the firm's policies; and, for escalating significant risks to the Compliance department. The Compliance department oversees, challenges and reports risk management issues to the Board, the Audit and Risk Committee and the Risk Management Committee, for further action to be taken, to mitigate emerging risks, as required.

The Audit and Risk Committee has oversight of the risk management strategy and risk infrastructure. Reports by the Compliance department are reviewed by the Audit and Risk Committee and are also reported to the Board of ICML on a periodic basis.

The Board reviews and approves the Internal Capital Adequacy Assessment Process (ICAAP).

2.3 Risk Reporting, Assessment and Management

Decisions by the Board, to mitigate risks, are taken in the context of the firm's risk appetite (i.e. the level of risk tolerance which the Board of ICML is prepared to accept).

The Board of ICML has concluded that all of the inherent risks within ICML's business are currently satisfactorily mitigated and no further action needs to be taken to further reduce the risks identified. The Board is satisfied that the remaining level of "residual risk" can be tolerated albeit subject to appropriate risk management and monitoring techniques. This situation is monitored on an ongoing basis and action is taken where significant changes to risk occur.

The risk management framework is reviewed at least annually.

3. PILLAR I - CAPITAL RESOURCES

ICML holds capital to ensure that a suitable operating margin is maintained in excess of ICML's capital resource requirement.

3.1 Capital Resources Requirement

As noted, ICML is categorised as a BIPRU firm and as a CPMI which is able to control, but not hold client money. It is subject to:

- the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU);
- the General Prudential Sourcebook (GENPRU); and
- the prudential rules for Alternative Investment Fund Managers per the Interim Prudential sourcebook for Investment Businesses Chapter 11 (IPRU (Inv) Chapter 11).

Under the BIPRU rules, ICML must maintain (Pillar 1) capital comprising a base capital requirement of €50,000. Under GENPRU and IPRU (Inv), however, this figure is €125,000. The base capital requirement for the firm is therefore the higher amount of €125,000.

3.2 Capital Resources Held

The table below sets out the components of ICML's Pillar I and Pillar II Capital Resources Requirement (CRR) calculation and details of the surplus of capital held over those requirements:

As at 30 June 2017	Pillar 1 capital (£000)	Pillar 2 capital (£000)
Regulatory Capital Requirement Calculated as the Higher of:		
1. Base Capital Requirement[3]	110	-
2. Funds Under Management Test The higher of: - Funds Under Management Requirement[4] and - Fixed Overhead Requirement[5] (**FOR**)	 123 4,599	 - -
3. Variable Capital Requirement Higher of: - Market Risk Plus - Credit Risk[6]; and - FOR	 - 1,319 4,599	 - - -
Operational Risk	-	250
Total Pillar 1 Requirement	4,599	-
Total Pillar 2 Requirement	-	250
Total ICAAP Capital Requirement	4,849	
Current Total Capital (Share Capital plus Audited Reserves)	10,356	
Surplus	5,507	

The Tier 1 capital is represented by cash held at bank (rated A2 by Standard & Poor's), with maturities of less than 3-months and accrued income due within no greater than 90 days. ICML does not hold Tier 2 or Tier 3 capital. There are no other items or deductions.

Credit risk is calculated using the standardised approach. The credit risk capital component is therefore calculated as 8% of the firm's total risk-weighted exposures.

This document fulfils ICML's Pillar III disclosure obligations. ICML provides a Pillar III disclosure on at least an annual basis, as required by FCA Handbook Chapter BIPRU 11.3.8 R.

4. PILLAR II – INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

ICML assesses the adequacy of its capital resources on an annual basis through the ICAAP, whereby the Board:

- carries out assessments of the capital that it considers adequate to cover the nature and level of the risks to which it is or might be exposed, including stress and scenario testing. The reviews are based on a subjective assessment of consequence and likelihood of these risks;
- identifies the major sources of risk to its ability to meet its liabilities as they fall due;
- ensures that the processes, strategies and systems required by Pillar II, and used in its ICAAP, are both comprehensive and proportionate to the nature, scale and complexity of ICML's activities; and
- maintains a documented record of the consideration of ICML's requirements under the ICAAP.

Details of the risks relevant to ICML along with relevant mitigating actions applied are set out below. In respect of the risks, any gross exposure to the firm should those risks materialise has been quantified, as has the potential exposure following the application of the mitigants in place.

4.2 Risks Relevant to ICML

Following the ICML risk assessment and ranking process, the potential risks identified in respect of ICML are as follows:

- Business risk;
- Liquidity risk; and
- Concentration risk;
- Operational risk; and
- Reputational risk:

An assessment has been made of each of these significant risks to determine the extent to which it is necessary to hold additional capital resources under Pillar II, and the required capital response should the risk crystallise.

The results are set out below; the first amount (**Quantification**) represents the Board's quantification of the potential gross exposure to the risk, while the second number (**Pillar II Add On**) is the Pillar II capital amount that the Board considers reasonable following the application of mitigants in each case.

Potential Risks	Quantification (£'000)	Pillar II Add On (£'000)
(1) Business	12,067	Non-capital response. Further details of the assessment of this risk are provided in section 4.3.
(2) Liquidity	6,865	Non-capital response. Further details of the assessment of this risk are provided in section 4.3.

(3) Concentration	-	Non-capital response. Further details of the assessment of this risk are provided in section 4.3.
(4) Operational Risk	250	Capital response of £250k. Further details of the assessment of this risk are provided in section 4.3.
(5) Reputational risk	-	Non-capital response. Further details of the assessment of this risk are provided in section 4.3.
TOTAL	19,182	250

In conclusion, assessment of the significant risks can be quantified as £19,182k. Risks 1, 2, 3 and 5 have been assessed with the conclusions of a non-capital response; therefore the Board has decided that no additional capital is required to mitigate these risks. In making an assessment of risk 4 (Operational Risk) the Board has identified a need to hold additional capital. This is to ensure that sufficient capital is available.

The cost of an orderly wind down has been considered and has been estimated at £724k, taking into account both anticipated wind down costs and any residual costs and fee income which can be expected to be generated during the period. As of the date of this document, ICML's overall capital resources are greater than the likely cost of a wind down of the business.

4.3 Key Risks

The table, below, sets out the key risks identified, with respect to ICML, along with an assessment of their potential impact and the capital amount deemed necessary to retain to adequately mitigate the risk (where relevant).

Risk (1)	Business Risk
Definition and Cause	Business risk is the failure of the business to execute its business strategy and therefore being unsuccessful in achieving projected returns. Examples of sources of this risk include (but are not limited to): • changes in the competitive/business environment and a lack of responsiveness to those changes; • changes to tax legislation/financial regulation which could reduce or remove EIS / Business relief; • inappropriate or improper strategic decisions in respect of the divisions (such as targeted client base or new product development decisions); and/or • poor performance delivery leading to client outflows.
Assessment of risk	ICML is the promoter to advisers and investors of a number of funds and services that it manages. If ICML is unsuccessful in promoting new funds and services this may impact the revenues of ICML. In the event that changes to tax legislation/financial regulation reduced or removed EIS

	/ Business relief and future revenue streams from these services are unviable, it has been assessed that sufficient income would continue to be generated until remedial measures could be taken by the firm.
Mitigants	ICML mitigates business risk via a formal business planning and budget review process, this sets a benchmark, which is reviewed monthly to monitor key financial indicators against the projected position, ensuring that the Board is fully aware of progress and able to act if actual results start to fall short of projections. Business risk is discussed at Board meetings. A formal three-year business plan and budget has been approved with an agreed action plan which is regularly reviewed and updated to ensure it is appropriate. Each fund and service has a Fund Managing Director that is responsible for fund raising and budgets. Members of ICML's Client Relationship Team (who promote the funds) are set objectives, performance targets and undergo regular appraisals. Business support teams, which comprise of legal, tax and regulatory specialists provide regular updates to the Board about any legal, or other changes that could have an impact on the business and strategic objectives of ICML.
Capital Response	Non-capital response.
Risk (2)	Liquidity Risk
Definition & cause	Liquidity risk is the potential risk that ICML, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.
Assessment of risk	ICML's access to liquid capital is dependent on a variety of factors, which include the solvency of the bank at which its cash reserves are held.
Mitigant	The following factors are considered to be relevant: • ICML does not, by way of business, engage in the activity of 'trading as principal'. Therefore, the Board is of the view that the company is very unlikely to create liquidity risk exposures which would generate an additional regulatory risk capital requirement. • ICML manages liquidity risk through ongoing rolling cash flow forecasts that are regularly updated and reviewed by the Finance Director. The systems and controls we have in place to manage liquidity risk are described in section 4.6 further below.

Risk (3)	Concentration Risk
Definition & cause	Concentration risk relates to any single exposure, or to a group of exposures, that have the potential to produce losses, which are large enough to threaten the company's viability. This risk also includes an exposure to limited numbers of significant revenue streams, such that the loss of one or more of those revenue streams would impact upon the company's ability to maintain its core operations.
Assessment of Risk	ICML is the promoter to advisers of a number of funds and services that it manages. ICML also makes direct offer financial promotions to Retail Clients. If ICML is unsuccessful in promoting new funds and services this may over time create a level of concentration risk which the Board may feel is unacceptably high. Changes to legislation to EIS and Business Relief may affect revenue. ICML generates fees from the various funds as per the investment management agreements. The ICML Board has considered whether or not there is a dominant reliance on key advisers and ensures that funds raised by a single intermediary are equally balanced to minimise concentration risk.
Mitigant	Further to the firm's business plan, the monitoring of fund raising, the diversification across clients and the broad base of revenue streams as described above, the Board does not consider it foreseeable that the loss of one, or a small number, of mandates would impact revenues to the extent it would be reduced to a level insufficient to permit continuation of the business as a going concern.
Capital Response	Non-capital response.

Risk (4)	Operational Risk
Definition & cause	Operational Risk is the risk of: a processing error, system failure or other operational failing, which gives rise to an unwanted financial exposure. Operational risk may occur during the course of day-to-day business activities, or it may be due to a systematic issue with the way the business operates. Operational risk includes the risk that a firm fails to comply fully with the terms of its contracts, in particular, where its investment mandates have become more complex. Failure, in this respect, could lead to substantial losses due, to clients' claims and legal fees. This risk is described in more detail in section 4.5.1. In summary, we have identified the following potential operational risks: • Risk of Fraud and financial crime (systems and controls) • System Failure • Valuation errors • Outsourcing risks • Breach of Data Protection and Legislation (GDPR) • Key Person Risk ICML does not hold client money or assets and thus the likelihood of an operating error or fraud leading to a significant loss is materially reduced.

Assessment of risk	Whilst ICML operates good and robust controls, as evidenced by the low level of error both in terms of count and cost, the risk remains.
Mitigant	Whilst the operational controls and processes in place reduce the risk of an operational failure, or fraud, this cannot be reduced to nil.
Capital response	Whilst the business continues to hold excess capital, the nature of the risks are such that a capital response is prudent, to ensure that capital is available, should the operational risk manifest itself, in conjunction with other risks.
Pillar II amount	£250,000
Risk (5)	Reputation (Ingenious Brand)
Definition & cause	ICML continues to enjoy a good reputation amongst its adviser and investor base and our view is that there has been limited overall commercial impact of the continued adverse press on affiliate \`Ingenious\` branded companies, on ICML.
Assessment of risk	The financial impact of losing some of our largest adviser relationships has been assessed through financial stress testing assessment.
Mitigant	The Ingenious Group as a whole are committed to excellence in customer service and are members of the Customer Service Institute.by Our Client Service Team is dedicated to providing after sales support, to all investors, which includes the provision of regular updates on investments and this team is area key point of contact for any investor queries. See section 4.4 for information about our further assessment of Reputational Risk.
Capital response	Non-capital response.

4.4 Other Risk Factors Affecting Reputational Risk

a) Poor performance: The impact of poor performance on the company's ability to generate profits is considered in the assessment of the company's exposure to business risk, in part 4.3 above.

b) Departure of key fund managers: The departure of multiple fund managers would have an impact on the ability of the firm to generate profits. The Board is of the view that the departures of key fund managers would not threaten the ongoing viability of the business in the short term. The scale and breadth of the investment teams is such that adequate internal support is available in the short term, to manage this risk, until replacement managers had been recruited..

c) Loss of customers: A loss of client mandates is considered in the assessment of the firm's exposure to concentration risk, in section 4.3 above.

d) Poor customer service: Client satisfaction levels are generally considered to be high, as indicated by the low volume of complaints that have been received from clients. The Compliance function undertakes regular monitoring of client complaints. Monitoring consists of a range of key metrics that are reviewed, on a regular basis, to assess the extent to which ICML has met its obligation to treat customers fairly. The monitoring and oversight of customer complaint metrics is discussed with and presented to the Board of ICML. To date, no material failings have been identified, as a result of this regular review process.

e) In addition to the factors cited by the FCA, the impact of fines by the FCA and elsewhere have also been considered. Scenario-based stress tests show that substantial capital loss events can be withstood by the firm.

Future changes to tax legislation and financial regulation have also been considered. Any further changes, which have a negative impact, are mitigated by reviewing relevant consultations and draft regulations and legislation, so that the firm takes appropriate steps, to mitigate the impact.

4.5 Other Risk Factors

4.5.1 Operational risk - failure to comply with complex mandates

Complex mandates from clients can lead to an increased risk of failing to comply, fully, with the terms of those client mandates; and, consequently, it risks an increase in the claims for damages, from clients. Existing systems and controls are considered to be sufficient, to mitigate this risk; therefore, `failing to comply with the terms of customer mandates` is not considered to be a significant risk for ICML.

4.5.2 Group Risk

The entities within the ICMH group do not constitute a consolidation group for regulatory capital and reporting purposes. ICML is exposed to 'group risk' in the general sense (i.e. the risk that a sibling company may be adversely affected by an occurrence, financial or non-financial, for example as detailed above in reputational risk).

4.5.3 Market Risk

Trading Book Market risk is the risk to earnings and capital arising from adverse movements in financial instruments, which can arise from a number of factors, including equity risk, interest rate risk, commodity risk, foreign currency risk and option risk.

ICML does not have a trading book and the majority of the investments made by ICML are in unlisted companies. Therefore, ICML's only direct exposure, to market risk arises, via investments of the company's assets in liquid bank deposits, prior to investment, or, if suitable investment opportunities are not available. Should foreign currency position exposures arising from investment management fees generated increase materially, senior management will consider entering into appropriate hedging arrangements to mitigate this risk.

4.5.4 Credit risk

Credit risk is calculated using the standardised approach. The credit risk capital component is therefore calculated as 8% of the firm's total risk-weighted exposures. The exposures which count for this purpose are those which are in the firm's non-trading book and have not been deducted from its capital resources. This is currently calculated at £1,319k and is adequately covered by the firms Pillar 1 requirement.

4.5.5 Interest rate risk

ICML has interest-bearing liabilities in the form of subordinated loans. The interest paid on these loans moves in line with the Bank of England base rate and as such ICML is subject to interest rate risk. The firm manages the payment of this interest through financial forecasting and the amount is not material to the firm.

4.5.6 Insurance Risk

ICML insures itself against certain risks and arranges insurance using a specialist insurance broker. The terms of our PI cover provide sufficient upper bound cover for a business of ICML's size and the type and scale of cover is reviewed annually to ensure this is the case.

4.6 Liquidity risk

The systems and controls that we have in place to manage liquidity risk are described below:

4.6.1 Systems and Controls

We maintain robust strategies, policies, processes and systems to enable us to identify, manage and monitor liquidity risk over an appropriate set of time horizons so as to ensure that we maintain adequate levels of liquidity buffers.

4.6.2 Liquidity Risk Tolerance

We seek to hold a minimum of £4.5m of liquid assets (which equals our FOR). However, we note that much of these costs can be reduced significantly in the event that the firm were to have limited liquidity. The liquidity risk tolerance has been approved by the Board and is reviewed on an annual basis.

4.6.3 Managing Liquidity Across Legal Entities and Business Lines

As part of managing our liquidity requirements, we take into account the liquidity position of individual business lines, in addition to that of ICML as a whole.

4.6.4 Liquidity Stress Testing

We have considered our potential sources of liquidity strain and have analysed these against our cash flows, liquidity position, profitability and solvency. We have undertaken the following stress tests and their result on cash flows:

- 40% reduction in fee income
- Loss of single largest client relationship
- A prudential planning error

It is the view of the Board, that, ICML's overall liquidity position is stable; ICML continues to meet the requirements, which are set out in the FCA Handbook, with respect to the management of liquidity risk; and, ICML maintains liquidity resources which are adequate, both as to amount and quality, to ensure that there is no, significant, risk that its liabilities cannot be met as they fall due.

4.6.5. Further Risks

The following risks have also been considered:

- Pension Obligation Risk: For firms providing a defined benefit pension scheme, there is a risk that liabilities to the firm's pension scheme may increase and that this may have an adverse effect on the ability of the firm to meet its other obligations as they become due. ICML does not provide a defined benefit pension scheme and this risk is therefore not applicable.
- Securitisation Risk: This includes the risk that the capital resources held by a firm in respect of assets which it has securitised are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved. ICML does not have securitised assets.
- Residual Risk: This is the risk that credit risk mitigation techniques used by the firm prove less effective than expected. For the reasons described, ICML does not need to use credit risk mitigation techniques.

4.7 Pillar II Conclusion

Following the assessment under Pillar II of risks relevant to ICML arising from ICML's particular activities, the Board considers a risk capital amount of £250,000 is appropriate to those risks that have been identified.

Therefore, in accordance with the rules in BIPRU, the Board of ICML is of the opinion that ICML is sufficiently capitalised for the risks to which it is exposed and must retain a Pillar II capital supplement of £250,000 at this time.

5 REMUNERATION POLICY DISCLOSURE

5.1 Introduction

The FCA's Remuneration Code requires certain FCA regulated firms to disclose a series of qualitative and quantitative information relating to remuneration. Depending on its size, internal organisation, and the nature, the scope and the complexity of its activities a firm is permitted to disapply certain parts of the Remuneration Code and only disclose certain information regarding its remuneration policy.

ICML is required to disclose information concerning the decision-making process used for determining the remuneration policy. This includes, if applicable, information about the composition and the mandate of a remuneration committee and the role of the relevant stakeholders. ICML is required to disclose information on the link between pay and performance, aggregate quantitative information on remuneration broken down by business area, senior management and for members of staff whose actions have a material impact on the risk profile of the firm.

5.2 The Decision Making Process

The Board of ICML approves the remuneration policy for ICML. Any changes are approved by the Board of ICML.

The salary for all new employees is subject to approval from the Group Finance Director and the Chief Executive. Salary is reviewed annually and increases in salary are discretionary.

ICML pays bonuses from profits made by the ICMH group, in addition payment of part of the bonus awarded may be deferred until subsequent financial years.

Ingenious has a Remuneration Committee (RemCo). The members of RemCo are the Group Chairman, at least one director from ICMH and the HR Director. The RemCo provides input, advice and oversight on individual awards. The Board of ICML approves bonus decisions and individual payments.

5.3 Pay and Performance

The purpose of granting equity and a bonus is:

- To incentivise performance and the achievement of personal and ICML's objectives measured through the annual review process;
- To reward contributions to the overall success and long term performance of the business; and
- To ensure talent is identified, rewarded and retained in the business.

Employees have tailored individual objectives covering various areas, this can vary by position and seniority. This can include learning objectives, interaction with the business and completion of specific projects etc. Remuneration is measured against achieving objectives and is approved as indicated above.

5.4 Quantitative Information on Remuneration for Financial Year Ended 30 June 2017

The following tables set out the aggregate quantitative information on remuneration for the firm as a whole as well as for senior managers, including those whose actions have a material impact on the risk profile of ICML:

Business Area	Aggregate Remuneration (£)
ICML	£14,464k

	Number of staff	Variable Remuneration (£)	Fixed Remuneration (£)	Aggregate Remuneration (£)
Senior Managers including staff whose actions have material impact on the risk profile of firm				
- Cash		£1,982k	£1,608k	£3,590k
- Deferred		£456k	-	£456k
Total	11	**£2,438k**	**£1,608k**	**£4,046k**