Pillar 3 Regulatory Disclosure Praemium UK

As at 30th June 2021

Approved by the board 21st April 2022

THE UK CAPITAL CONSOLIDATION REGULATED GROUP, INCLUDING:
PRAEMIUM ADMINISTRATION LTD (FRN 463566)
SMART INVESTMENT MANAGEMENT LTD (FRN 627829)
PRAEMIUM RETIREMENT SERVICES LTD (FRN 462660)
PRAEMIUM INTERNATIONAL LIMITED (IB0271, JERSEY)

Contents

Introduction and context

1.1 Purpose

Background

The Financial Conduct Authority ('FCA') is responsible for implementing and enforcing the European Capital Requirements Directive ('CRD'), a capital adequacy framework consisting of three 'pillars':

- Pillar 1 sets minimum capital requirements comprising base capital resources requirements; credit risk and market risk capital requirements; and the fixed overhead requirement.
- Pillar 2 requires firms to undertake an overall internal assessment of their capital adequacy, taking into account all risks to which the firm is exposed and whether additional capital should be held to cover risks not adequately covered by Pillar 1 requirements. This is achieved through the Internal Capital Adequacy Assessment Process ('ICAAP') and the ('SREP') Supervisory Review and Evaluation Process ('SREP') by the FCA.
- Pillar 3 complements Pillars 1 and 2 and improves market discipline by requiring firms to disclose information on their capital resources and Pillar 1 requirements, risk exposures and their risk management framework.

This document provides the disclosures required under Pillar 3, providing details on capital, risk exposures, risk assessment processes and capital adequacy. It is consistent with the way in which senior management, including the Praemium Administration Limited (PAL) Board, assess and manage the risks faced by the business.

Frequency of disclosure

This document is updated and published annually. It will, however, be published more frequently if there are significant changes to the business (such as changes to the scale of operations, range of activities, etc).

This document has been reviewed internally and approved for publication on the Praemium website (www.praemium.co.uk). It has not been verified independently, does not constitute any form of financial statement and should not be relied upon in making any judgment about the financial position of any Praemium entities.

1.2 Praemium Structure

The International Group

The ultimate parent undertaking is Praemium Limited ('Praemium'), which is a leading provider of portfolio administration, investment platforms and financial planning tools to the wealth management industry. Praemium's clients are predominantly firms that provide financial advice to investors, namely financial advisers, brokers, accountants, investment managers, banks and other financial providers. Founded in 2001 and listed on the ASX in 2006, the business is operated in Australia from its head office in Melbourne and internationally with offices in London, Jersey, Hong Kong, Shenzhen, Birmingham, Yerevan and Dubai.

Praemium supports over 1,000 financial institutions and intermediaries, from small businesses to large institutional clients and manages or administers over 300,000 investor accounts covering over £78 billion in funds globally.

Wealth professionals are continually seeking to improve productivity to address lower margins driven by regulatory change and consumer demand. Praemium helps with this journey by providing leading-edge technology to automate many routine, time-consuming activities coupled with innovative scalable investment solutions and industry-leading reporting.

Praemium is highly regulated and acts for its clients in a fiduciary capacity. It does not engage in proprietary trading activities that could conflict with the interests of its clients.

In December 2021, Praemium announced the proposed sale of the Praemium International Group to Morningstar, Inc. As at the date of this disclosure, this proposed transaction is still in progress and is subject to regulatory approval and has not been included in the assessment of the regulatory capital position and strength of the UK Consolidated Regulatory Group ('the CRG').

Legal entities in the UK group

Praemium Portfolio Services Limited (PPS) is the holding company for the majority of Praemium's businesses in Europe, the Middle East and Africa (EMEA). PAL is a wholly owned subsidiary of PPS, which in turn is wholly owned by Praemium Limited, a company incorporated in Australia and listed on the Australian Stock Exchange.

PPS is not required to, and does not, prepare consolidated statutory financial statements. A regulatory consolidation is, however, undertaken in respect of PPS and its regulated subsidiaries (together, the UK Consolidated Regulatory Group ('the CRG') which reports its CRD IV capital requirement to the FCA.

This document contains information in respect of the CRG which comprised the following entities as at the reporting date:

- Praemium Administration Ltd (PAL), a Limited License IFPRU €125k firm;
- Smart Investment Management Limited (SIM), a BIPRU €50k Limited License firm;
- Praemium Portfolio Service Limited (PPS), the parent holding company and as such deemed to be a Financial Institution for regulatory consolidation purposes;
- Smartfund Nominees Limited (SFN), a non-trading entity providing nominee services to PAL and as such deemed to be a Financial Institution for regulatory consolidation purposes;
- Praemium Retirement Services Limited (PRSL), a SIPP administrator subject to the requirements set out in the Interim Prudential Sourcebook for Investment Business and, at entity level, the capital requirements framework set out in FCA Policy Statement 14/12 and the Personal Pension Scheme Operators (Capital Requirements) Instrument 2014; and
- Praemium International Limited (PIL), a Jersey company regulated by the Jersey Financial Services Commission.

Basis of preparation

The FCA requirements are set out in the Capital Requirements Regulations (CRR) from the European Banking Authority and Capital Requirements Directive (CRD), together referred to as CRD IV.

CRD IV requires that institutions should, at all times, hold at least:

- a Common Equity Tier 1 capital ratio of 4.5%;
- a Tier 1 capital ratio of 6%; and
- a total capital ratio of 8%.

The minimum capital requirements as at 30 June 2021 for the CRG and its CRD IV legal entities were calculated in accordance with the 'Pillar 1' rules as set out in the FCA Handbook; the General Prudential Sourcebook.

The CRG reported its regulatory capital requirement to the FCA by applying the 'aggregation method' as follows:

- For each entity in the group that is required to report under CRD on a stand-alone basis, the credit risk, market risk and fixed overhead requirements were calculated and reported.
- For all other material entities, even though there is no requirement to report regulatory capital under CRD on a stand- alone basis, the fixed overhead, credit risk and market risk requirements are calculated.
- Each of the solo credit risk and market risk calculations are aggregated to determine the UK group's credit risk and market risk. The Pillar 1 capital requirement for the UK group is calculated as the higher of total fixed overhead requirement and the sum of the total credit risk and market risk requirements.

Each of the regulated entities in the UK group has sufficient capital resources in relation to its minimum regulatory capital requirement on a standalone basis.

Transferability of funds among PPS and its subsidiaries

There are no current or foreseen material practical or legal impediments to the prompt transfer of funds among PPS and its subsidiaries.

1.3 Disclaimer

This information has been prepared for the purpose of explaining the basis on which the Group has determined and disclosed certain capital requirements and information about the management of risks relating to those requirements and for no other purpose. This document does not constitute any form of financial statement on the Group, nor does it constitute any current or future record or opinion of any business within the Group.

Risk management and policies

2.1 Introduction

The PAL Board (and the Boards of the subsidiary entities within the CRG) is responsible for PAL's system of internal controls, the objectives of which are the safeguarding of its assets, the maintenance of proper accounting records and the availability of reliable financial information for use within the business and for publication. This system of internal controls is also designed to provide reasonable, albeit not absolute, assurance against material misstatement and to prevent and detect fraud and other irregularities.

PAL's risk management process, and that of the other entities within the CRG has been designed to take account of PAL's risk appetite. This is based on PAL not having any trading book, not having any material foreign currency or commodity position or exposure and not trading for clients as principal. The Board regularly reviews the effectiveness of the UK Group's internal control system as part of the formal framework for identifying, evaluating and managing significant risks throughout the year.

Neither PAL nor any other member of the Praemium group self-insures or insures third parties. Insurance is, however, used as a primary business risk mitigation tool. For this, cover (including fiduciary liability, also known as professional indemnity) is arranged at a group level by Praemium Limited at limits considered appropriate for the group's business from which PAL and Praemium's UK business benefits.

2.2 The PAL and CRG approach to risk management

Praemium Limited, PAL and the CRG have together adopted a risk management framework comprised of the following four elements:

- Risk governance, including:
    - setting risk tolerances;
    - establishing policies and procedures;
    - establishing regional and global risk committees; and
    - overseeing the risk management framework.
- Risk identification and assessment, including:
    - identifying the firm's key risks and emerging risks;
    - identifying business unit risk through tools such as risk and control self-assessments and regular meetings with business units;
    - reviewing new products and major changes; and
    - reviewing operating events and external events.
- Risk monitoring and measurement – quantifying and forecasting risks and monitoring against risk tolerance. This includes:
    - monitoring and investigating operating incidents, and recording them in a database of operating incidents;
    - establishing and monitoring key risk indicators in the context of the firm's risk tolerance; and
    - overseeing the Internal Capital Adequacy Assessment Process, including the quantification of regulatory capital requirements.
- Risk reporting – providing information and reports to functional and regional business management, boards, committees and regulators. This includes:

- risk profile and risk register reporting; and
- operating incident and breach reporting as defined by the PAL Breach Policy document.

"Conduct Risk" was defined by the FCA in the 2011 "Retail Conduct Risk Outlook" as the "risk that the firm's behaviour will result in poor outcomes for customers". The Risk Framework described above, consistent with regulator and advisor communications, incorporates Conduct elements throughout. Conduct, and the provision of good customer outcomes, is all encompassing and has not been included as a single risk, or risk category. Rather it has been included as an impact against which all risks and activities are assessed.

The Risk Management Framework operates in the context of a **"three lines of defence"** model of governance and risk management to provide reasonable assurance of the safeguarding of the interests of all stakeholders, including the customers of the Group's operating businesses.

The first line comprises all management who have day-to-day responsibility for designing, implementing and maintaining effective internal controls within the individual subsidiaries. Key controls are embedded throughout the operation within systems and processes in order to mitigate risk. These systems and processes are formally described in the CRG's Policies and Procedures. The key components of the internal control framework forming this first line of defence are described above and also include the Risk and Regulatory Change Committee which oversees each business area's assessment of its key risks and the controls in place to mitigate them, as well as the impact of new or emerging regulatory changes on the business' operations, risk profile and appetite. Finally, the Board of each regulated company also has a key role to play in the management of risk. Their role is to set the tone and influence the culture of risk management within the Group.

The second line comprises the business's and then the Group's Risk and Compliance function who provide expertise, monitor and challenge the management and specific risks.

The third line requires a separate review of the effectiveness of the assessment and management of risk, including providing assurance on the effectiveness of the first and second lines of defence. This review is provided by the Global Chief Financial Officer to the Australian Group Audit, Risk and Compliance (ARC) Committee which meets quarterly. In addition, external specialists, often audit, legal or consultancy practices, are engaged across the Group as required to provide further independent assurance that the risk and control framework is effective and robust.

2.3 Management of specific risk categories

Operational Risk

Operational Risk relates to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It includes legal and financial crime risks. Operational risk can never be eliminated; however, to minimise the probability and impact of adverse operational events our risk management process includes specific reviews of the key risks identified via the Risk Register, the underlying internal control matrices and the effectiveness of the risk management process as a whole which is integral to the CRG's Risk Management Framework, utilising many of the tools outlined above in section 2.2. This includes a range of policies and procedures carried out by all three lines of defence with the aim of enhancing operational controls and minimising errors.

The Pillar 2 assessment of operational risk further supports the overall risk management framework through assessments and scenario analysis. Where loss data internally or externally has been available this has been used; where not, management experience has been applied. The key operational risks assessed for the CRG ICAAP are a consolidation of a number of more granular risks which are managed through the ongoing risk management activity of the business. The risks assessed through this process include;

- Legal and Regulatory Risk
- CASS
- Information Technology
- Change
- Processing

- Conduct of the business
- Outsourcing and material suppliers
- People
- Business Continuity
- Information Security
- Financial Crime.

Credit Risk

This represents the risk of loss through default by a counterparty and can include failure to recover debts, a default by the issuer of a market instrument (Issuer Risk) and/or a counterparty not living up to contractual obligations as a result of its insolvency.

PAL does not offer credit to its clients and does not conduct any trading as principal. The significant majority (in excess of 98%) of the fees which the CRG receives for its services are either collected directly from the accounts and funds which it operates or, in the case of SIPPs, from the account it manages directly as Co-Trustee. Accordingly, credit and counterparty risk are not considered to be significant for PAL or the CRG and for this reason it does not use any credit risk mitigation in determining its capital resources or otherwise.

The CRG's core regulatory capital, surplus capital and free cash flow are ordinarily held in the form of corporate bank accounts or short- term cash deposits with HSBC Bank plc whose credit rating is Aa3.

Neither PAL nor any other member of the Praemium International group has any outstanding borrowing from a bank or other third-party lender. Praemium has an outstanding loan, secured against its own assets. PAL has no collateral positions to manage.

Market Risk

This is the risk that arises from fluctuations in values of, or income from, assets or in interest or exchange rates. PAL does not engage in any principal dealing for clients and does not engage in any own-account trading (whether in commodities, equities or other assets). PAL does not itself run or hold any positions in currencies other than sterling.

PAL's clients' portfolios are subject to market risk. Accordingly, market risk can indirectly affect PAL's income. This risk is mitigated in part by there being a large number of portfolios which are advised on by a number of different regulated firms and are invested in a broad range of assets.

PAL receives its funding in GBP from Praemium Group cash reserves.

No additional capital resources are required by PAL to cover market risk.

Interest Rate Risk

PAL has no requirement for borrowing and does not engage in any principal trades or run any trading book exposures that could be subject to interest rate risk.

Own funds (capital resources) and capital requirements

Within the UK group, the only element of own funds, also known as capital resources, held is common equity tier 1 capital ('CET 1'). This is the highest form of capital and consists of share capital, share premium, retained profit and other relevant qualifying reserves.

3.1 Own Funds

CRG Consolidation

As audited statutory financial statements are not prepared for the consolidated UK group, the own funds for the CRG are disclosed below.

Balance Sheet Description	CRG Own Funds (£)
Share capital	2,150,000
Share premium	-
Other reserves	6,833
Profit and loss reserve	3,795,964
Regulatory deductions	
Goodwill	-
Other intangible assets	(11,656)
Investment in subsidiaries	(599,800)
Deferred tax assets	-
Total own funds	5,341,341

3.2 Capital requirements and adequacy assessment

The entities that fall within the scope of CRD IV are required to hold own funds in excess of 8% of their total risk exposure amount ('TREA'). As a 'limited licence' firm, the TREA is the higher of the sum of credit and market risk, or fixed overhead requirement ('FOR').

Pillar 1 TREA

The table below sets out the Pillar 1 TREA of PAL and the CRG at 30 June 2021.

Requirement	CRG (£000)	PAL (£000)
Risk weighted exposure amounts for credit, counterparty credit and dilution risks		
Institutions and bank deposits	629	224
Corporates	22	21
Retail and SMEs	3,250	2,387
Tangibles, pre-payments and accrued income exposures	401	122
Total Credit Risk	4,302	2,754
Fixed Overhead Requirement (FOR)	1,020	201
Additional risk exposure amount due to fixed overheads	8,446	-
Total Risk Exposure Amount (TREA)	12,748	2,754

Capital Ratios

The table below discloses the CET 1 capital ratios of PAL and the CRG at 30 June 2021 determined from the own funds and TREA values shown in the tables above. As these entities only have CET 1 Capital, the Tier 1 capital ratio and total capital ratio are the same as the capital ratio noted below. The requirement is to have a total capital ratio greater than 8%.

Requirement	CRG	PAL
CET1 (and Total) Capital Ratio (%)	41.9	93.2
Surplus of Total Capital (£000)	4,768	2,441

Capital Requirements in Respect of Non-CRD IV Entities

In addition to their inclusion within the Aggregation Method of determining the CRG Pillar 1 TREA and total capital ratios (as explained in s1.3 above), the Boards of PIL and PRSL are required to maintain capital in accordance with their respective capital requirements frameworks.

At 30 June 2021, Praemium Retirement Services Limited (PRSL) held qualifying capital of £1,093,626 against a total capital requirement (under the FCA Policy Statement 14/12 and the Personal Pension Scheme Operators (Capital Requirements) Instrument 2014) of £841,089.

At 30 June 2021, Praemium International Limited (PIL), held qualifying adjusted net liquid assets (ANLA) of £742,262 against a notification point, based on relevant audited annual expenditures, as required by the Jersey Financial Services Commission, of £540,742.

The capital requirements of both PIL and PRSL are actively monitored each quarter by the wider UK Group and further capital will be provided as required.

3.3 Pillar 2 Internal Assessment of Capital Adequacy

Approach to Assessing Adequacy of Internal Capital

The primary purpose of the ICAAP is to inform the PAL and CRG Boards of the on-going assessment of the UK group's risk, how the group intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors. In assessing the risks facing the CRG, input is sought from across the business.

This approach, undertaken in full at least annually and subject to regular review, ensures a comprehensive consideration of all significant risks relevant to the group and is based on wide consultation with senior managers across many different functions.

The Pillar 1 variable capital requirement is the higher of the sum of the credit risk and market risk requirements and the Fixed Overhead Requirement (FOR). As the CRG is categorised as a 'limited licence' firm, it is not required to calculate operational risk under Pillar 1. However, it is included within the Pillar 2 risk assessment.

In order to validate the adequacy of the above requirements under the Pillar 1 calculations, the ICAAP consists of the following individual tests:

- The adequacy of the Pillar 1 credit and market risk requirements is assessed
- Pillar 2 risks are then separately assessed, with reference to all relevant balance sheet items, in order to ascertain whether additional risks exist that are not covered by Pillar 1.
- Liquidity is assessed across the Group by applying various reverse stress testing scenarios, each designed to assess risk exposures against available cash flows.
- Stress testing and other modelling tools are applied to assess capital adequacy and the CRG's liquidity position in the context of specific wind down scenarios developed in line with the FCA's Wind-Down Planning Guide in the FCA Handbook as updated February 2020.

The Board oversees the ICAAP process, with reference to all relevant balance sheet items in order to ascertain if there are additional risks that are not covered by Pillar 1.

Remuneration Disclosures

4.1 Introduction

PAL was, as at the 30th June 2021, an IFPRU €125K limited licence firm and SIM was a BIPRU €50K firm and as such both were subject to the FCA's Remuneration Code (the Code). It is required to disclose its approach to linking remuneration to risk and to provide remuneration details for those of its employees deemed to be 'code staff'. These senior staff covered by the Code are those whose professional activities have a material impact on the Group's risk profile (Code Staff).

PAL has established and maintains remuneration policies, procedures and practices that are consistent with, and promote, sound and effective risk management and these are applied across the regulated group, including SIM.

In accordance with the Code and associated FCA guidance, PAL and SIM classify themselves as "proportionality level three" firms. This allows it to disapply some of the technical requirements of the Code and to proportionately apply the Code's rules and principles in establishing PAL's policy in line with the size, internal organisation and the nature, scope and complexity of its activities. PAL also follows guidance provided by the European Banking Authority (EBA) in conjunction with the requirements of the FCA Remuneration Code.

PAL and SIM form part of the Praemium Group which has a Remuneration Committee that meets six monthly and approves the design of remuneration award schemes and the granting of individual awards to code staff. It is appropriately comprised of Praemium Group Directors who are independent of PAL's business.

4.2 Code Staff Criteria

The PAL Board has approved that individuals performing Senior Management functions should be classified as Code Staff.

4.3 Remuneration policy and the decision-making process

The Praemium Group (of which PAL is a constituent company) aims to build the business over the longer term and thereby maximise the return to shareholders, while paying proper regard to the interests of all our stakeholders (including employees, clients, shareholders) and to the surrounding communities in which it operates. Staff is one of the key assets of the organisation and PAL's policy is to attract and retain people of the right quality.

PAL and SIM's remuneration policy and awards granted to all staff, including Code Staff, are the responsibility of the Board. Performance reviews and awards are subject to a defined review and sign-off process.

When fixing the remuneration policies and packages for current and future periods the Board will take into account:

- the need to attract, retain and motivate staff of the quality required;
- pay and employment conditions elsewhere within the Praemium Group;
- any risk/regulatory matters which could impact the granting of individual awards; and
- the activities of comparable companies, taking into account relative performance.

The Remuneration Committee meets every 6 months to:

- Review the impact of any regulatory developments on the Group's remuneration practices;
- Assess the appropriateness of any variable pay awards to employees, including any code staff and those recipients of sales scheme awards;
- Review updates made to the policy and practices; and
- Assess any Compliance papers reflecting a risk assessment of awards made and take into account any views put forward by the Compliance Director.

The Committee will seek external advice from remuneration consultants where there is significant regulatory change or where it determines that the skills or expertise are not available within the firm. PAL will continually seek to network in the industry with consultants who specialise in the area of remuneration. The PAL Regulatory Risk and Change Committee liaises with the Remuneration Committee regarding any regulatory or risk management issues that could impact on remuneration awards.

4.4 The link between pay and performance

PAL recognises that code staff have a key responsibility to drive its future success and deliver value for shareholders and that remuneration is a key component in motivating and rewarding those staff.

Code staff remuneration is intended to fairly compensate employees in line with the skills provided, work performed, and responsibility undertaken. Overall, remuneration is principally provided in the form of salary but includes an element of annual variable incentive compensation in the form of a fixed number of share options. These are exercisable in future years, conditional on both the individual achieving recognised performance standards and the Praemium Group achieving its EBIT targets.

4.5 Aggregate quantitative information

At the year ended 30th June 2021 PAL had 6 Code Staff of which 5 also acted as Code Staff for SIM.

Aggregate Praemium UK Group remuneration expenditure (including pension, termination costs and the cost in the period of any performance rights arising from share options issued to Code Staff) was £887k of which £32k was apportioned to PAL and £429k was apportioned to SIM.