

# COLUMBIA THREADNEEDLE EMEA

Threadneedle Asset Management Holdings Sàrl

## Pillar 3 Disclosure

As at 31 December 2016

Report date: 24 August 2017

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## 1. Introduction

Columbia Threadneedle Investments is the global asset management group of Ameriprise Financial, Inc., a leading US-based financial services provider.

The EMEA business of Columbia Threadneedle Investments comprises Threadneedle Asset Management Holdings Sàrl (the “**Group**”) and its subsidiaries.

As at 31 December 2016, Columbia Threadneedle Investments EMEA manages **£105.2bn** of assets and has a presence in 19 countries. We invest on behalf of individuals, pension funds, insurers, and corporations. We manage a range of products investing in a variety of asset classes, including equities, fixed income and property. These capabilities are marketed to investors through a range of product structures (e.g. UK OEICS, Luxembourg SICAVs, UK life structures and segregated accounts).

Columbia Threadneedle Investments is a people business focused on delivering excellence for our clients. The starting point for the Group is our values. These are:

- Client Focus;
- Excellence;
- Integrity; and
- Respect.

## 2. Purpose of Disclosure

This document sets out the Pillar 3 market disclosures for the Threadneedle Asset Management Holdings Sàrl (the “**Group**”) excluding Threadneedle Pensions Limited (“**TPEN**”).

The Group is regulated by the Financial Conduct Authority (“**FCA**”). It is subject to rules set out in the FCA’s General Prudential Sourcebook (“**GENPRU**”) and Prudential Sourcebook for Banks, Building Societies and Investment Firms (“**BIPRU**”). This disclosure is prepared in accordance with the Capital Requirements Directive III (“**CRD III**”), which is the common framework for implementing Basel II in the European Union.

These rules are built on three ‘Pillars’:

- **Pillar 1:** This comprises the minimum base capital resources requirements, including credit risk and market risk capital requirements and the fixed overhead requirement;
- **Pillar 2:** Firms must undertake an overall assessment of their capital adequacy. This assessment takes into account all risks that are not covered adequately or at all by Pillar 1 requirements. We assess these bespoke capital requirements through our Internal Capital Adequacy Assessment Process (“**ICAAP**”); and
- **Pillar 3:** Rules for the disclosure of risk and capital management, including capital adequacy. The purpose of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm’s capital, risk exposures and risk assessment process.

The disclosures in this document have been prepared in accordance with BIPRU 11. Information deemed immaterial has been omitted. The disclosures do not constitute formal audited financial statements and have been produced solely for the purpose of Pillar 3.

## 3. Scope

The Group is supervised by the Financial Conduct Authority (“**FCA**”). It includes six regulated companies, Threadneedle Asset Management Limited, Threadneedle International Limited, Threadneedle Investment Services Limited, Threadneedle

Navigator ISA Manager Limited, Threadneedle Portfolio Services Limited, and Threadneedle Pensions Limited (“**TPEN**”).

TPEN is also regulated by the Prudential Regulatory Authority (“**PRA**”). It has its own capital requirements and is excluded from the Internal Capital Adequacy Assessment Process (“**ICAAP**”) and the Pillar 3 disclosure. TPEN is required to publish a Solvency and Financial Condition Report which is available on the Columbia Threadneedle website (see **Section 5**).

## **4. Frequency of Disclosure**

This document is updated and published at least annually (more frequently if there are significant changes to the business).

## **5. Media and Location of Disclosure**

This document is published on the Columbia Threadneedle Investments website <http://www.columbiathreadneedle.co.uk/>.

## **6. Enterprise Risk Management Framework**

### **6.1 Introduction**

Ameriprise Financial has implemented a comprehensive Enterprise Risk Management (“**ERM**”) programme for all of its subsidiaries and operations, including the Group. The ERM program provides a framework for the identification, monitoring and management of risk, including compliance with applicable local regulatory requirements and expectations.

It is designed to enable the Group to protect the interests of its clients by managing all elements of risk on a forward looking basis.

The Group is regulated in many jurisdictions and must ensure it establishes and maintains systems and controls appropriate to its business. In particular, it must establish, implement and maintain adequate risk management policies and procedures. This includes effective procedures for risk assessment, which identify the risks relating to the Group’s activities, processes and systems, and where appropriate, set the level of risk tolerated by the Group.

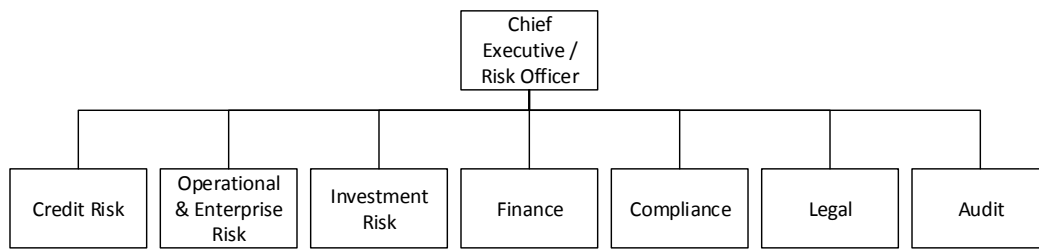
The Group’s policy is that risk management is the primary responsibility of business line management and should be embedded in its various business units and departments. All members of staff have an obligation to be aware of the risks within their processes, understand the controls in place to manage those risks, and report any additional risks or control failures of which they become aware. To this end, a risk management goal is incorporated as part of the performance objectives for all members of staff.

The Group follows these guiding principles:

- Clients’ interests should come first above all else and in every situation;
- The ERM Framework must provide a forward looking assessment of risk exposure;
- The Group must maintain ERM Policies that are consistent with sound practices for the industry in which it operates, including all applicable regulatory expectations;
- The Group’s ERM Policies derive from, and are aligned with, those of the Ameriprise Group; and
- Failure to act in accordance with the Group’s ERM Policies is unacceptable.



Figure 2: Office of Risk



This group is designed to help the Group make properly informed decisions, by drawing upon the experience and knowledge of a wide group of experienced control functions and risk professionals.

This group meets to discuss current and emerging risk matters and raise items for further debate and challenge at the monthly EMEA RCC meetings. These expert inputs into the risk governance and processes are focussed on improving risk outcomes for clients and the business.

### Functional areas

The Operational and Enterprise Risk team establishes the ERM framework that facilitates a common approach to the identification, assessment and management of risk across the Group. The team is also responsible for capturing, analysing and communicating the Group’s risk and control profile to the RCC and other governance bodies.

The Investment Risk team is primarily concerned with market, liquidity and counterparty risks borne by the Group’s clients. The objectives of investment risk management are to fulfil the Group’s fiduciary responsibilities as to the amount and type of market risk taken within the client portfolios which the Group manages.

The Regulatory Capital Management team (within Finance) coordinates the ICAAP process across the Group, including production of the ICAAP report.

The Corporate Treasury team (within Finance) ensures that the Group, and all individual legal entities within it, have sufficient liquid assets to meet their liabilities as and when they fall due.

The Compliance and Audit teams partner with the risk functions in order to implement a combined assurance approach to managing and mitigating risks across the Group. Compliance is also responsible for overseeing the Group’s regulatory risks, and also for Mandate Compliance and Trade Surveillance.

## 6.3 Risk Appetite Framework

The Board has established a Risk Appetite Statement (the “**RAS**”) for the Group. The RAS expresses the Group’s tolerance for risks that it faces. It defines the risks that we are prepared to accept in order to deliver our strategic objectives. The Board sets quantitative and/or qualitative limits for each of the Group’s risks. These allow management and the Board to monitor the Group’s exposure to risk and ensure that it stays within the Group’s tolerance. Should a risk exceed its tolerance thresholds, the Group considers if and/or how it should:

- Mitigate the risk where possible;
- Explicitly accept the risk, and consider increasing the risk appetite; or
- Scale down or terminate the activity.

The Group employs a range of approaches to monitor and report risks throughout the organisation in the context of its RAS. These include a Risk and Control Self-Assessment (“**RCSA**”) process, dashboards to report the status and direction of key

risks, a rigorous process to identify, record and resolve operational risk events, and policies and procedures covering the Group’s risks and processes.

The Group’s risk appetite may change as its business evolves. The Board therefore reviews and formally approves the RAS annually, as well as when the Group’s risks, or the markets in which it operates, are materially altered.

The framework is embedded within the Group’s core business processes, and is used as a tool for decision-making and strategic analysis. All the elements of the risk framework inform one another, leading to a cycle of continuous improvement. This enables the Group’s overall solvency needs to be assessed in a continuous and prospective way in relation to its risk profile.

## 6.4 Three Lines of Defence

The Board is responsible for establishing the Group’s risk appetite and strategy, which includes approving the Group’s risk management framework, policies, methodologies, and roles and responsibilities. The Board is also responsible for setting the tone from the top and has communicated Columbia Threadneedle Investments’ four values — Client Focus, Excellence, Integrity and Respect — which are core to the Group’s culture, strategy and processes. All staff share responsibility for delivering these values across the business.

To further embed the Group’s four key values and its Risk Management Framework, the Board has adopted a “Three Lines of Defence” model which can be summarised as follows:

<b>Three Lines of Defence – Roles and Responsibilities</b>	
<b>First Line</b> Business Units	Undertake day-to-day risk management
	Comply with risk management framework, policies and procedures
	Apply internal management controls and improvement actions
<b>Second Line</b> Risk & Compliance	Oversee and challenge risk management in First Line of Defence
	Provide guidance and direction to First Line of Defence
	Develop and communicate the ERM Framework
<b>Third Line</b> Internal Audit	Independent perspective and challenge process
	Review and oversee First and Second Lines of Defence

## 6.5 Policies and procedures

The Group has adopted comprehensive policies and procedures which govern management of risk, including the Ameriprise Risk Policies which are part of the Ameriprise Enterprise Risk Policy Framework. These policies and procedures have been adopted by the EMEA RCC and EMEA BMC for management of risk in all EMEA business units. At the top-down level, the policies establish the corporate parameters for risk appetite and management of all risks to accurately reflect the Group’s risk profile.

The Ameriprise Enterprise Risk Policy Framework links to the Group’s Key Risk categories (Operational Risk, Financial Risk, Legal and Compliance Risk, and Business/Strategic Risk). This seeks to ensure that the Ameriprise ERM vision of risk management is embedded into the day to day business operations of the Group, within agreed tolerances which are monitored quarterly, to meet client needs and optimise return on shareholders’ equity. All policy and procedure documents are recorded in a central repository, and must be reviewed by their owners at least annually.



## 6.6 Internal Capital Adequacy Process (“ICAAP”)

The Group is required to undertake an Internal Capital Adequacy Assessment Process (“ICAAP”) by the FCA. The ICAAP is a regulatory requirement of the FCA. The requirements are outlined in the General Prudential (“GENPRU”) sourcebook Section 2 and in the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) Section 2. In summary, the regulations require the Group to:

- Regularly assess whether the amounts, types and distribution of financial resources, capital resources and internal capital are considered adequate to cover the nature and level of risks to which it is or might be exposed;
- Identify the major sources of risk to its ability to meet its liabilities as they fall due;
- Conduct stress tests and scenario analysis;
- Conduct Reverse Stress Testing and Wind-down analysis; and
- Ensure that the processes, strategies and systems used in its ICAAP are both comprehensive and proportionate to the nature, scale and complexity of that firm’s activities.

The ICAAP is the responsibility of the Board of Directors of the Group, TAML and TIMTL and forms an integral part of the Group’s management and decision-making processes.

## 7. Risk Exposure Overview

The most material risks to which the Group is exposed are set out below.

### 7.1 Operational Risk

Operational risk is the risk of loss resulting from internal processes which are inadequate or have failed due to human errors, system failures, or external events. The Group is exposed to operational risk as a consequence of its core businesses. Operational risk is the Group’s largest risk category and therefore receives a high degree of attention and focus from senior management and the Board. The Group seeks to manage and mitigate operational risk, in order to achieve its corporate objectives and fully comply with all regulatory requirements.

Columbia Threadneedle Investments EMEA has an operational risk management strategy whose objectives are to:

- Reduce operational errors through continuously improving processes and controls;
- Increase the effectiveness and robustness of processes and controls;
- Provide effective reporting for management to understand and manage operational risk; and
- Encourage a positive and proactive operational risk culture.

Operational risk is managed in accordance with the Group’s Enterprise Risk Management (“ERM”) Framework described in **Section 6**.

The Group assesses its capital requirement for Operational Risk using scenario analysis. The aim is to estimate extreme levels of operational losses that the Group could incur. As the Group does not have experience of such levels of losses, the assessment relies on developing representative severe loss scenarios for the Firm’s key risks and extrapolating them to an extreme level using a statistical model.

The scenarios are developed through workshops attended by the risk owners and other subject matter experts, informed by the output of the ERM framework (e.g. internal loss experience, RCSA’s, and key risk indicators) as well as external loss information.



The statistical model extrapolates the scenarios and then aggregates them, factoring in the correlation between risks. The results are reviewed and challenged, including by the Firm's Risk and Controls Committee and the Board's Audit and Risk Committee, to ensure reasonableness.

## 7.2 Financial Risk

### 7.2.1 Market Risk

Market risk is defined as the risk of loss arising from movements in market prices, including movements due to changes in interest rates, equity markets, foreign exchange markets, and derivative markets in respect of the Group's assets and liabilities. This excludes market risks borne by clients in respect of funds and portfolios managed by the Group.

The Group's Market Risks arise from:

- Foreign currency which the Group holds, e.g. as a result of its operations outside the UK and/or non-sterling client/fund revenue;
- Box holdings, which arise out of small holdings which the Group maintains in the funds it manages; and
- Compensation arrangements e.g. deferred cash compensation arrangements tied to the value of funds managed by the Group.

The Group's market risk exposures are monitored and managed in accordance with its Market Risk Management Policy. Note that seed money exposures are managed as credit risk while market risks relating to the Threadneedle Pension Plan are managed separately.

The market risk component mainly relates to the Group's foreign currency positions. This is calculated, in accordance with BIPRU 7.5, as 8% of the net open currency position by currency. The market risk capital requirement is set-out below:

**Table 1: Market Risk by Statement of Financial Position component, at 31 December**

<b>Market Risk Capital Requirement (£m)</b>	<b>2015</b>	<b>2016</b>
Foreign currency	0.1	0.1
Box holdings	8.1	1.8
<b>Market Risk</b>	<b>8.2</b>	<b>1.9</b>

### Interest Rate Risk in the Non-Trading Book

Columbia Threadneedle Investments EMEA has no debt and is not directly exposed to interest rate risk from an interest expense perspective. There is a significant amount of cash held by the business as part of the normal cash management process. However, this is primarily held with short maturity dates and therefore it is not deemed necessary to hold any capital for interest rate risk.

### 7.2.2 Credit Risk

Credit risk is defined as the risk of loss resulting from counterparty default. This definition excludes the risk of rating transition (i.e. a reduction in credit rating) and its impact on the mark-to-market value in a position, which would be covered under market risk. It also excludes credit risks within funds and client portfolios, which are borne by clients.

The Group's credit risk arises from exposure to:

- The counterparty credit risk associated with cash and near cash instruments held, over the counter derivatives including foreign exchange, exchange traded derivatives and exposures to these instruments on the Group's balance sheet; and

- Debtors as quantified on the Group's balance sheet, including inter alia retail fund debtors, fees receivable, intra-group debtors.

The Group's credit exposures are monitored and managed in accordance with its Counterparty Credit Risk Policy.

The Group's credit risk capital figures are calculated by applying factors to the Group's level of exposure to these risks, i.e. the value of relevant holdings on the Group's balance sheet (which represents the maximum exposure which could be lost at any given date).

- **Seed Money:** At 31 December 2016 the balance sheet value and fair value of the seed holdings was £62.2m. The investments are held in the Group's products (primarily pooled funds).
- **Cash, Money Market Deposits and Debtors:** Financial assets are considered to be past due if a counterparty has not made payment by the contractual due date. An asset is considered to be impaired when the carrying value of the asset is greater than the recoverable amount through sale or use. The Group reviews its financial assets on a regular basis for indicators of past due and impairment. Historically, default levels have been insignificant.

Debtors consist mainly of outstanding management fees invoiced to clients (including retail funds).

The Group's Counterparty Credit Risk Committee approves all new counterparties and ensures that exposures to counterparties are well diversified. The Group uses Standard & Poor's to assess the credit quality of exposures which have an external credit rating.

The following table summarises the Group's credit risk exposure by exposure category, excluding seed capital, at 31 December 2015 and 2016.

**Table 2: Standardised Credit Exposures by exposure category, at 31 December**

£m	2015	2016
Banks	276.9	340.7
Collective Investment Undertakings	25.5	28.7
Other	476.8	357.0
<b>Total</b>	<b>779.2</b>	<b>726.5</b>

Note: Other primarily includes retail debtors relating to the purchase of units in pooled funds.

The following table summarises the Group's credit risk exposure by exposure category, excluding seed capital, at 31 December 2015 and 2016.

**Table 3: Standardised Credit Exposures by Credit Quality Step, at 31 December**

£m		2015	2016
1	AAA to AA-	21.8	24.7
2	A+ to A-	250.6	313.9
3	BBB+ to BBB-	34.3	30.0
NA	Unrated	472.6	357.9
<b>Total</b>		<b>779.2</b>	<b>726.5</b>

Note: Other primarily includes retail debtors relating to the purchase of units in pooled funds.

The geographic distribution of these exposures is largely to counterparties based in the European Union.

The credit risk capital component is calculated, in accordance with BIRPU 3.1 adopting the standardised method, as 8% of the risk weighted exposures in the Group's non-trading book. These comprise cash, debtors, seed holdings and fixed assets.

**Table 4: Credit Risk by Statement of Financial Position component, at 31 December**

<b>Credit Risk Requirement (£m)</b>	<b>2015</b>	<b>2016</b>
Seed investments	5.9	6.1
Debtors – other	9.1	7.7
Cash holdings	4.1	6.6
Other including fixed assets	0.8	0.9
<b>Credit Risk</b>	<b>19.9</b>	<b>21.3</b>

### 7.2.3 Corporate Liquidity Risk

Corporate liquidity risk is where the Group, though solvent, either does not have sufficient financial resources available to meet its obligations when they fall due, or can secure them only at an excessive cost.

The Group manages this risk in line with the requirements of BIPRU 12, which requires firms to manage liquidity risk in accordance with FCA regulations. The policy, responsibilities, process and contingency arrangements are documented in the Group's Liquidity Risk Policy and Management Framework. This document has been approved by the EMEA RCC and the boards of the regulated BIPRU firms.

### 7.3 Legal and Compliance Risk

Legal and Compliance risk is the risk of loss due to a failure to comply with laws, legal agreements or regulations. The Group's management team monitors developments in regulation, assesses the impact on the business and implements any changes that will be required to meet those requirements and ensure that the capital levels meet or exceed the regulatory requirements.

Compliance with both the practice and spirit of Principle 11 of the FCA's Principles for Businesses is core to the approach to managing its relationship with regulatory bodies. Accordingly, the executive management team and the Board are actively involved in fostering a close and continuous relationship with the FCA and other regulators.

### 7.4 Strategic Risk

Strategic Risk is the risk that Columbia Threadneedle Investments is unable to generate sustainable earnings or that strategic mistakes result in a depletion of capital. Factors influencing business risk include adverse changes in the competitive or market environment, changes in the operational economics of business activities, and failures or poor execution of strategic decisions.

## 8. Capital Adequacy

### 8.1 Capital Resources

As of 31 December 2016, the Group's consolidated capital resources (as calculated under GENPRU 2 Annex 4 – Capital Resources for a BIPRU investment Group deducting material holdings) amounted to **£383.9m**. This includes the audited profits for 2016 but excludes any dividend which may be paid in 2017.

**Table 5: Composition of Tier 1 capital, at 31 December**

Capital resources (£m)	2015	2016
Permanent ordinary share capital	0.9	0.9
Share premium account	327.3	327.3
Legal reserve	0.1	0.1
Capital reserve	-	-
Other reserves	(0.6)	6.4
Profit and loss account	163.1	163.1
Unaudited retained earnings	N/A	95.9
Defined benefit pension surplus	(10)	(2.1)
<b>Total Tier 1 Capital before deductions</b>	<b>480.8</b>	<b>591.5</b>
Intangible assets	(190.0)	(185.2)
Insurance company excluded from ICAAP group	(19.3)	(22.4)
<b>Total Tier 1 Capital after deductions</b>	<b>271.5</b>	<b>383.9</b>

Note: Unaudited retained earnings of £95.9m are included in 'Total Tier 1 Capital after deductions', these were available to the Group on 22/03/2017 when the statutory accounts were signed-off by the Auditor.

The Group does not have any hybrid capital, Tier 2 capital, Tier 3 capital, or any capital which provides the Group with incentives to redeem that capital.

## 8.2 Capital Adequacy

Columbia Threadneedle Investments EMEA maintains sufficient capital to meet its regulatory requirements, which are based on the higher of Pillar 1 and Pillar 2 capital requirements.

The adequacy of the capital held by the Group is assessed as part of the ICAAP and is subject to formal approval by the Group's board of directors.

**Table 6: Summary of Pillar 1 capital requirements, at 31 December**

Description (£m)	2015	2016
A Sum of Market and Credit Risk Requirements	28.1	23.2
B. Fixed Overhead Requirement	41.4	43.6
<b>Pillar 1 Capital Requirement (greater of A and B)</b>	<b>41.4</b>	<b>43.6</b>
<b>Consolidated Capital Resources</b>	<b>271.5</b>	<b>383.9</b>

## 9. FCA Remuneration Code

The FCA implemented its Remuneration Code (the "Code") as required by the Capital Requirements Directive and the Financial Services Act 2010. Under the Code, the Group must report annually on its Remuneration Governance Process and certain details on its Remuneration Policies and Practices.

### 9.1 Decision-Making Process for Remuneration Policy

The Group has a Remuneration Committee (the "Committee") which meets regularly to establish the Group's remuneration principles and oversee the governance of the remuneration programmes, policies and procedures. The Committee carries out its responsibilities within the authority delegated by the Board and documented in its Terms of Reference. The responsibilities include approving the terms of the incentive pool, long term incentive plan, and any other incentive arrangements and the remuneration

for senior level employees, specifically reviewing all positions identified as Code Staff including heads of Control Functions.

The Committee is comprised of three members, none of whom are employees of Columbia Threadneedle Investments EMEA but who serve as Ameriprise Financial nominated directors on the Group's Board.

The Committee receive independent advice on regulatory compliance with the Remuneration Code from PricewaterhouseCoopers LLP and on remuneration issues and trends from an independent provider of remuneration data.

## **9.2 Role of the Relevant Stakeholders**

The Committee takes full account of the Group's business and strategic objectives in setting remuneration policy and is mindful of its duties to shareholders and other stakeholders. The Committee seeks to preserve shareholder value by ensuring the successful engagement, motivation and retention of employees, while ensuring that reward programmes and awards support and are consistent with sound risk management and control.

## **9.3 Link between Pay and Performance for Code Staff**

Remuneration is made up of fixed pay (i.e. salary and benefits) and variable pay that is performance-related. The variable pay includes (1) short term incentives tied to the Group's profitability, business results, and individual performance including delivery against the Group's values and its risk and control requirements; and (2) long term incentives linked to the delivery of value to the customer and the shareholder. Long-term incentive awards represent the deferred element of variable pay and are conditional on vesting requirements. The incentive award decision for individuals on both short term and long term incentives is dependent on the individual's overall performance assessment which includes performance against the Group's values, expectations around risk management and the Group's standards of performance and conduct.

## **9.4 Code Staff Identification and Quantitative Disclosure**

The FCA classifies Code Staff as those staff whose activities could have a material impact on the Group's Risk Profile. The Code Staff for Columbia Threadneedle Investments EMEA have been identified through an exercise that involved the mapping of risks and responsibilities, and consideration of other factors.

For the calendar year 2016, there were a total of 31 Code Staff who were employees of the Group for all or a portion of the year. They were all senior managers who were in significant management, control, or risk functions or the Group. The operations of Columbia Threadneedle Investments EMEA are considered a single business unit.

The aggregate total remuneration for Code Staff for the period ending 31 December 2016 was £17.8m (of which £12.7m relates to Senior Management, and £2.9m relates to staff whose actions have a material impact on the risk profile of the firm). A significant portion of this total remuneration was deferred in the form of long term incentive awards. Total remuneration represented salary, cash incentive awards, long term incentive awards, and the estimated employer value of pension accruals or contributions on their behalf.