Pillar 3 Disclosures

Based on financial data at 31st December 2018

Rowan Dartington

CONTENTS

1. OVERVIEW

These disclosures are prepared in accordance with the Capital Requirements Directive IV (CRD IV). The framework consists of three ‘pillars’:

- Pillar 1 sets out the minimum capital requirements to cover credit, market and operational risk;
- Pillar 2 relates to the Internal Capital Adequacy Assessment Process (“ICAAP”) and subsequent Supervisory Review and Evaluation Process (“SREP”) through which the firm, and the Financial Conduct Authority (“FCA”) as the firm’s regulator, assess and agree the level of capital required to cover the risks that it is exposed to; and
- Pillar 3 relates to the disclosures that a firm must make regarding the firm’s risks, capital and risk management procedures

The information contained in this document has not been audited by our external auditors, as this is not a requirement, and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm. The disclosure will be made on an annual basis.

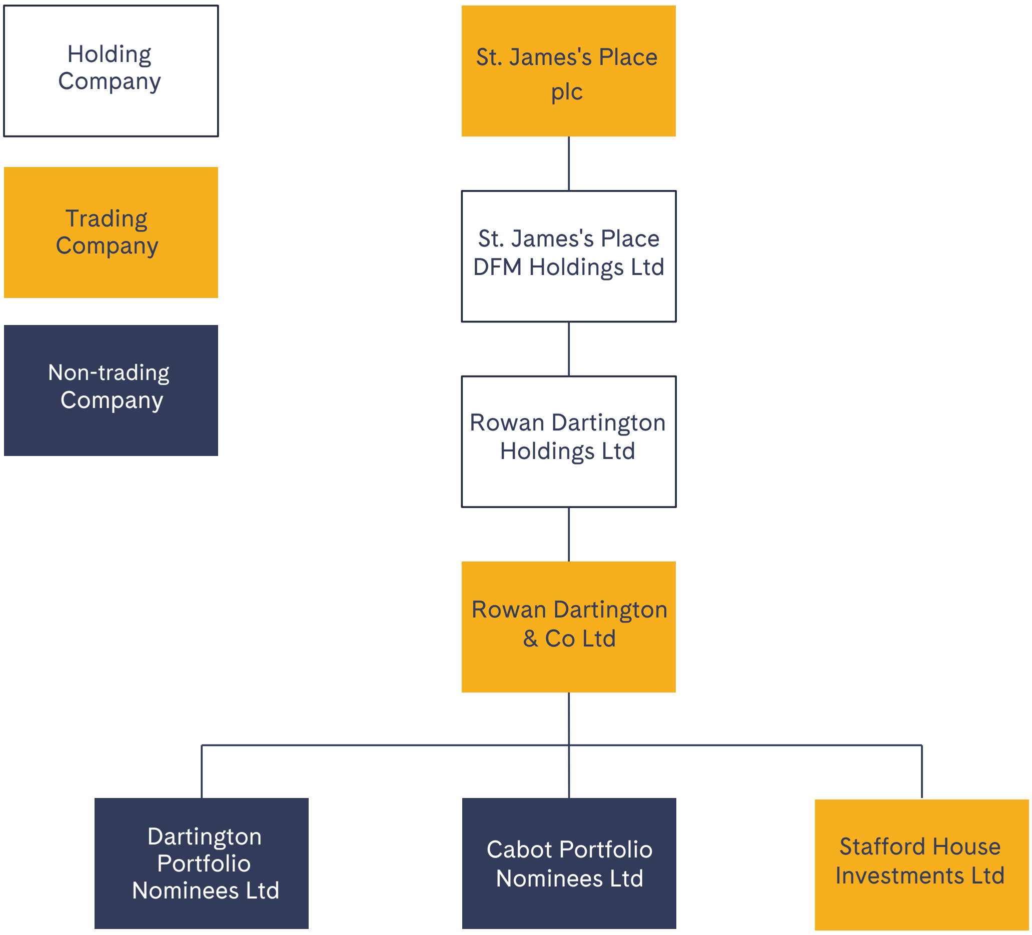
2. COMPANY BACKGROUND

Rowan Dartington & Co. Ltd (“RDC”) is a UK-based stock broker and investment manager providing discretionary, advisory and execution only investment management services to private clients, professional intermediaries and charities. RDC is a wholly owned subsidiary of St. James’s Place plc (“SJP”), having been acquired in 2016.

RDC is authorised and regulated by the FCA . Within the FCA’s regulatory framework, RDC is considered an IFPRU 125k firm. RDC is also a medium CASS firm.

GOVERNANCE

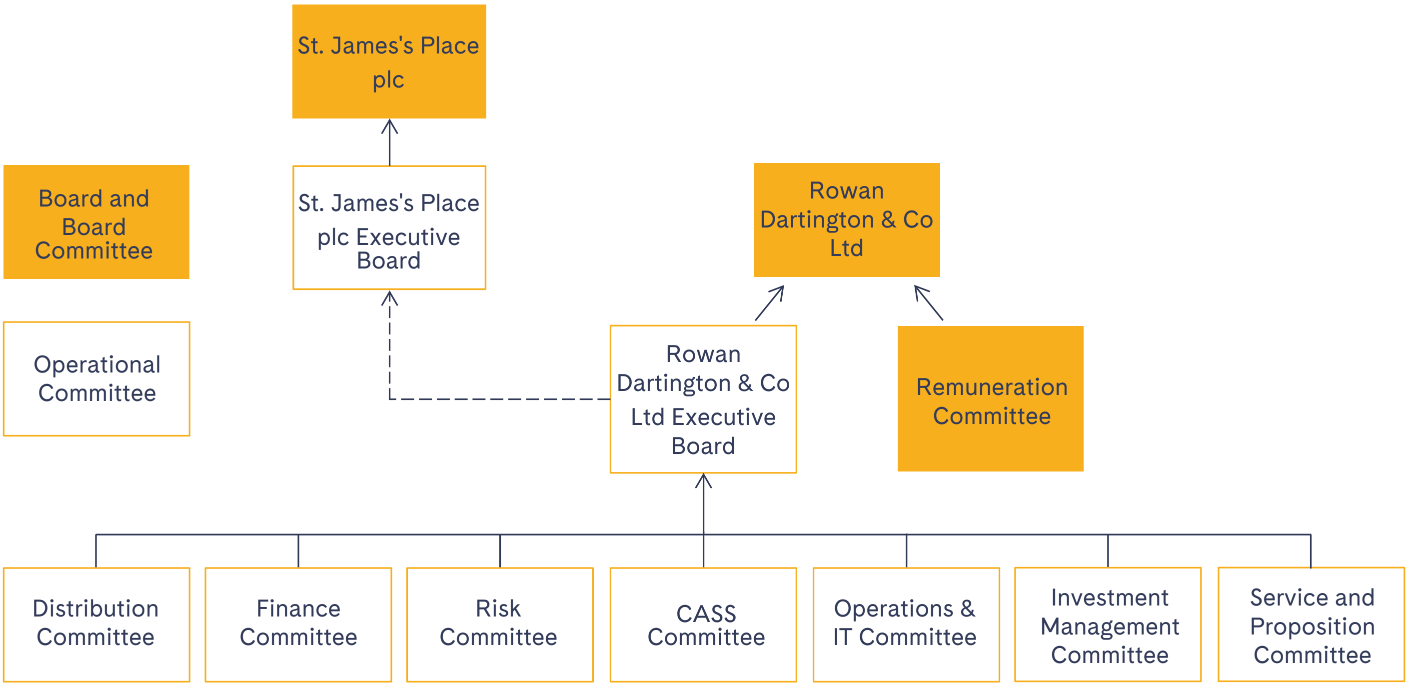
The St. James's Place plc legal entity structure is summarised below:



RDC is a private limited company incorporated in 1992 (companies house number 02752304). RDC has three subsidiaries, two of which are non-trading nominee shareholder companies. RDC was acquired by St. James's Place in 2016. Subsequently, a number of holding companies were created to facilitate this transaction – RDC is 100% owned by Rowan Dartington Holdings Ltd, which is itself 100% owned by St. James's Place DFM Holdings Ltd. The overall owner is St. James's Place plc, a public limited company (incorporated in 1996, companies house number 03183415) and constituent of the FTSE100.

This document describes the capital resources, risks and risk management for the RDC Group.

The Firm's management structure is detailed below:



The RDC Board of Directors has overall responsibility for the firm. The Board meets on at least a quarterly basis. The Board has delegated responsibility for the day-to-day management of RDC to the Executive Chairman and Chief Executive Officer ("CEO"). An Executive Board ("ExBo") has been appointed to assist the CEO in the discharge of those responsibilities. The ExBo formally meets as and when appropriate and on a frequency not less than monthly. The ExBo is supported in its duties by a number of Operational Committees, including a Risk Committee which meets no less than 10 times per year.

The members of the RDC Board and details relating to the number of other directorships they held as at 31 December 2018 are:

		Number of Directorships held		
		Within SJP Group	Other	Total
G. Coxell	Executive Chairman and CEO	4	6	10
J. Betteridge	Chief Investment Officer	2	1	3
A. Clark	Chief Operating Officer	3	-	3
G. Cockerill	Finance Director	3	-	3
S. Jones	Managing Director, Distribution and Marketing	1	-	1
C. Holt	Chief Risk Officer	2	-	2
T. Cheal	Non-Executive Director	2	3	5
N. Hunt	Non-Executive Director (SJP Group)	1	-	1

Subsequent to year end, C Holt ceased to be a member of the RDC Board and has been replaced by M Leather.

RDC's Executive Chairman and CEO reports directly to the St. James's Place plc CEO.

RDC has an appointed representative, which is also a subsidiary of the firm, Stafford House Investments Ltd ("SHI"). SHI is a small firm of independent financial advisors, with six authorised advisors. Oversight of SHI is the responsibility of the Distribution Director, with the SHI executive reporting into the Distribution Committee. RDC's risk management framework applies to SHI. Risks associated with SHI have been considered as part of the firm's ICAAP to the extent that they are material to the RDC group of companies.

BUSINESS MODEL AND STRATEGY

The strategy of the firm is one of growth. The firm aims to consolidate its national presence providing discretionary investment management and advisory broking services across the UK by continuing to invest in the recruitment of investment executives. Since acquisition by St. James's Place, the firm has seen significant growth from distribution of its services through the Partnership. This is set to continue and accelerate, as the firm strengthens and broadens its relationships with St. James's Place Partners. The firm also intends to broaden its relationships with independent financial adviser firms to provide investment management services to their clients both in the UK and internationally.

To augment organic growth, the firm is continuing to explore opportunities to grow the business through acquisitions. Given the uncertainty around acquisitions, they are not included in the business plan or this document. However, material acquisitions will trigger an assessment of the implications on capital adequacy.

3. RISK MANAGEMENT FRAMEWORK

RDC is committed to ensuring risks are managed in an effective and efficient manner, so as to ensure customer and shareholder interests are both protected and maximised.

In order to achieve this, RDC aims to:

- Make risk management a central part of its business, such that wherever there are risks - be they positive or negative for the company - proportional resources are deployed to address them;
- Be 'risk aware' as opposed to 'risk averse' - that is, where situations exist such that taking risk may have a positive outcome for the company, RDC will do so in a controlled fashion, rather than avoiding the risk;
- Develop and maintain a comprehensive risk appetite statement which is openly shared with the business such that risk taking can be monitored;
- Develop and maintain a risk and control framework which is proportionate to the business, and allows for ease of application and adaptation as the company grows;
- Involve all employees, irrespective of management level, in the effective management of risk;
- Ensure risks are identified and managed in a consistent fashion across all risk types to which the company is exposed;
- Take action to address exposures arising from 'risk events' and subsequently incorporate any 'lessons learned' into the improvement of controls;
- Promote an open and honest culture, which includes a customer outcome focus, where all employees, irrespective of management level, can raise concerns about risk taking and take action to address these without recourse; and
- Actively benchmark the company's risk management processes and incorporate lessons learned from inside and outside the business into the continuous improvement of the risk management practices

The Board considers that the risk management framework is appropriate given the scale and complexity of the firm's risk profile and business strategy.

RISK POLICY

RDC has adopted the SJP Group's Risk Management Policy. The policy outlines the principles for risk management, which have been applied throughout the risk management framework at RDC.

RISK ORGANISATION

RDC has organised itself so as to have 'three lines of defence'. This allows responsibilities to be divided between areas for risk management as follows:

- Own and take risk, and implement controls ('1st line');
- Monitor and facilitate implementation of effective risk management activities and assist risk owners in reporting risk related information up and down the organisation ('2nd line'); and
- Provide assurance to the company's board of directors and senior management of the effectiveness of the company's assessment and management of risk exposure ('3rd line').

Organising the business in this way allows for independence and challenge whilst still promoting a collaborative approach to risk management.

Specific roles and responsibilities are apportioned as follows:

1st Line of Defence ('Risk Takers')
The 1st line of defence is the areas of the business with direct ownership of major operations and processes fundamental to the operation of the company. As such, these areas must take risks in order to 'do business' and meet business objectives.

2nd Line of Defence ('Risk Oversight')
The 2nd line of defence is a central support function and is independent from the 1st line of defence. The 2nd line of defence governs the overall risk management framework and oversees its application.

3rd Line of Defence ('Independent Assurance')
The 3rd line of defence is the internal audit function which provides independent assurance over both the 1st and 2nd lines of defence. RDC uses the SJP Group Internal Audit Function.

RISK APPETITE STATEMENT

The RDC Board, advised by the CRO and Risk Committee, is responsible for setting the risk appetite for the firm and ensuring that RDC maintains a risk management culture and suitable risk framework to assess if the firm operates within the parameters set by the risk appetite.

In line with our strategy of growing the business and enhancing our position as a stock broker and investment manager providing discretionary, advisory and execution only investment management services, our risk appetite is summarised below:

- RDC has no appetite for material regulatory or compliance breaches. Safe and sound treatment of customers is the core of our business.
- RDC has minimal tolerance for system outages which impact our customers' ability to conduct business with us. RDC is a service based company, and enabling our customers to conduct business with us, when they choose, is important to the long run success of the company.
- RDC recognises that its people are integral to its ability to succeed. It is critical that RDC maintains the knowledge and skills base of the company. As such, RDC has low tolerance for any activities which may result in a loss of key personnel from the business.
- RDC has a clear appetite to take on risk in the pursuit of developing the value and profitability of the business. RDC's shareholder, SJP, is fully supportive of this approach. RDC's appetite to take on risk is limited by:
  - its ability to identify appropriate value adding initiatives aligned to the overall agreed business strategy;
  - maintaining adequate capital resources at all times; and
  - not introducing excessive levels of management stretch which would impair the ability of the business to successfully execute on identified new initiatives.

In arriving at this overall statement, the RDC Board has considered its risk appetite across a number of risk categories, in line with the FCA's requirements (set out in IFPRU 2.2.7). For each major risk, the board has identified risk drivers, and has agreed thresholds and escalation points:

- **Threshold points** represent the tolerance for risk taking. Any risk taking in excess of this limit would be in breach of the board's stated appetite. Therefore, any such risk taking must be escalated to the board and should be addressed as soon as possible, so as to bring risk taking back within appetite.
- **Escalation points** represent situations where risk taking is still within the board's appetite, but that the level of risk taking is becoming concerning. In these circumstances, such risk taking requires closer oversight and escalation to the risk committee is required.

RISK ASSESSMENT

RDC assesses risks and controls through top down (board level top risks) and bottom up (department level) processes. Risks are quantified using the following scale:

Rating	Likelihood	Severity
1	Rare	Insignificant
2	Unlikely	Minor
3	Possible	Moderate
4	Likely	Major
5	Almost Certain	Very significant

Once a risk has been evaluated, an appropriate response is determined, and the risks are recorded in risk registers and monitored accordingly.

MONITORING

The on-going monitoring of the level of risk in the organisation is performed by all three lines of defence. In the first line, risk and control registers are maintained and are used to track and respond to risks. RDC also operates a risk event management process, which is overseen by the 2nd line of defence. The 2nd line risk function provides feedback to the rest of the business through regular management information, allowing departments to identify and respond to risk and control themes identified.

The 2nd line of defence provides management information to the governance fora so as to provide assurance, or otherwise, that the level of risk within RDC is below the board's stated risk appetite.

The 3rd line of defence is provided by the SJP Group Internal Audit function. Findings from audits are reported to management. The 2nd line function provides management information to the risk committee showing the status of issues.

4. CAPITAL RESOURCES

The table below summarises the capital resources of the RDC Group as at 31st December 2018:

Capital resources at 31 December 2017	£m
Share capital	24.6
Share premium	0.7
Capital redemption reserve	0.1
Share option reserve	3.4
Retained earnings b/f	(17.8)
Net assets	**11.0**
Less: intangible assets	(0.6)
Capital Resources	10.4

The capital resources of RDC can all be regarded as common equity tier 1 capital.

5. REGULATORY CAPITAL REQUIREMENTS

Pillar I establishes the regulatory minimum, 'own funds', capital requirement and is a rules based approach to calculating capital.

The EU Capital Requirements Regulation (EU CRR) prescribes the methodology to be applied in calculating an own funds capital requirement as the higher of the initial capital requirement, the sum of the market and credit risk capital requirements, and the fixed overhead requirement. Having applied the EU CRR methodology, RDC has calculated that its pillar I requirement is driven by its fixed overhead requirement:

Capital requirement	£m
Pillar I – Higher of:	
Initial capital requirement	0.1
Market and credit risk requirement	1.1
Fixed overhead requirement	4.6
Pillar I Requirement	4.6

The firm's common equity tier 1 capital ratio, tier 1 capital ratio and total capital ratio, expressed as a percentage of its total risk exposure amount (calculated as 12.5 multiplied by the Pillar 1 requirement), are all 18.1%, significantly higher than the respective regulatory minimum requirements under the CRR which comprise:

- Common equity tier 1 capital ratio 4.5%
- Tier 1 capital ratio 6.0%
- Total capital ratio 8.0%

The firm has documented its overall evaluation of the level of capital required to support current and future activities within its Internal Capital Adequacy Assessment Process ("ICAAP").

The firm has assessed whether the level of capital held under Pillar 1 provides adequate protection against the prescribed Pillar 1 risks, and also whether capital should be held against any other risks that the firm is exposed to.

The firm has projected capital resources over a 5 year planning horizon, both under normal trading and economic conditions, and under a variety of stress scenarios. The firm has also evaluated the level of capital required to execute an orderly wind down of the business.

6. CREDIT RISK

The Firm's credit risk exposures primarily comprise:

- Liquidity held with large highly rated UK banks;
- Accrued income from clients;
- Dealing debtors which result from a short term timing difference between the execution and settlement of trade;
- Other miscellaneous assets.

RDC has a conservative approach to the management of its liquid asset resources. All liquidity is held in instant access accounts with large highly rated UK banks.

Accrued income from clients arises because fees are charged on a periodic basis in arrears. RDC considers the credit risk to be minmal because RDC has a contractual arrangement with the end clients to be able to deduct those management fees from the client's cash balances, or to execute a sale of their investments to enable payment of the fee. This provides significant mitigation to this credit risk.

Dealing debtors derive from a short term timing difference between the execution and settlement of a trade.

The table below highlights the Pillar I credit risk capital calculation for RDC Group as at 31 December 2018, based on the standardised approach to credit risk:

Description	Exposure (£k)	Risk Weight	RWA (£k)	Cap'l req't (£k)
Intangible assets[1]	598	-	-	-
Tangible fixed assets	596	100%	596	48
Cash at banks	6,350	20%	1,270	102
Prepayments and accrued income	3,293	100%	3,293	263
Dealing debtors	3,711	100%	3,711	297
Client funding account	666	75%	500	40
Other assets	4,442	100%	4,442	355
TOTAL	19,656		13,812	1,105

[1] Intangible fixed assets are deducted from capital and therefore attract a zero risk weight.

The Group uses credit assessments from External Credit Assessment Instutitions ("ECAIs") to determine the appropriate risk weight to use in the Pillar 1 credit risk capital calculation. The ECAIs used are Fitch, Moody's, and Standard and Poor's.

7. MARKET RISK

Market Risk is the risk of loss resulting from fluctuations in values of, or income from, assets, interest rates, exchange rates or market prices of commodities. The firm has no exposure to market risk through a trading book. The firm is exposed to some foreign currency exposure as a result of holding foreign currency denominated bank accounts. However, the firm's net foreign-exchange position is less than 2% of its total own funds, and as a result, no Pillar 1 capital is held against market risk.

8. OPERATIONAL RISK

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Although the firm is not required to hold capital against operational risk under Pillar 1, the firm has considered its exposure to operational risk within its ICAAP to ensure that it is holding sufficient capital to cover the risks that the business is exposed to.

9. LIQUIDITY RISK

Liquidity risk is the risk that a firm 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.

As detailed above, RDC has a conservative approach to the management of its liquid asset resources with all liquidity held in instant access accounts with large highly rated UK banks.

The firm is not exposed to risk associated with renewal of funding, because the firm is entirely funded through permanent capital.

The firm complies with the overall SJP Group liquidity risk policy, and monitors the movement in cash on a daily basis.

10. REMUNERATION DISCLOSURE

The RDC Board has overall responsibility for the firm and as such the Directors can have a material impact on the risk profile of the firm. The firm has also identified some additional employees that have been designated as having a material impact on the risk profile of the firm.

The St James's Place Plc Remuneration Committee has delegated responsibility to determine and review the remuneration policy for all SJP Executives within the Group, which includes the RDC Executive Chairman.

The RDC Remuneration Committee is responsible for setting remuneration packages for the remainder of the RDC Board and other identified individuals who have a material impact on the risk profile of the firm. The RDC Remuneration Committee comprises the RDC Executive Chairman and the CEO of the SJP Group.

Total remuneration includes a combination of base pay reflecting an individual's responsibilities and experience, a defined contribution pension scheme, a benefits package including a range of benefits such as private medical insurance, a discretionary annual performance bonus, and a number of share based compensation arrangements.

The annual performance bonus rewards achievement of the RDC business plan, and also the wider SJP Group business plan, and also recognises an individual's personal performance.

As part of the SJP Group, RDC has operated a number of SJP share-based payment arrangements:

- Executive deferred bonus schemes – under these plans, the deferred element of the annual bonus is used to purchase shares at market value in SJP plc. The shares are held in trust and vest three years after the date of grant.
- Executive performance share plan – awards of performance shares to the Executive Directors and other senior managers. The ultimate value of shares released to recipients is dependent on a variety of conditions linked to the performance of the SJP Group over a three year period, as agreed by the SJP Remuneration Committee.
- SAYE plan – this is a standard HMRC approved scheme that is available to all employees where individuals can contribute up to £250 per month over three years to purchase shares at a price not less than 80% of the market price at the date of the invitation to participate.
- Restricted Share Plan – upon acquisition of Rowan Dartington by SJP Group a new scheme was launched for eligible employees. Employees were granted shares, 50% of which vested after 18 months, and the remaining 50% vest after three years providing the individual remains in employment within the SJP Group and maintains any applicable professional qualifications. The plan is predominantly equity-settled.

Details of the remuneration of the Board, and the other individuals who have a material impact on the risk profile of the firm is detailed below:

£k	RDC Board	Other individuals	Total
Number of individuals at the end of 2018	7	12	19
Fixed remuneration	1,167	1,159	2,326
Variable			
- Cash	194	146	340
Deferred			
- Shares outstanding at 31 December 2017 (unvested)	1,274	251	1,525
- Shares awarded in respect of 2018 performance	409	201	610
- Shares paid out during 2018	-	-	-
- Shares outstanding at 31 December 2018 (unvested)	1,683	452	2,135