

EdenTree Investment Management Limited
Pillar 3 Disclosures for the year ended 31 December 2015

Introduction

EdenTree Investment Management Limited (EdenTree), formerly Ecclesiastical Investment Management Limited, is an FCA Limited Licensed UCITS investment firm incorporated in the UK. As such it is required to comply with The Capital Requirements Directive ('the CRD') of the European Union which has established a regulatory capital framework across Europe governing the amount of capital that credit institutions and investment firms must maintain. The CRD has been implemented in the UK by the Financial Conduct Authority (FCA) through the General Prudential Sourcebook ('GENPRU'), the Prudential Sourcebook for Investment Firms (IFPRU) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU').

Formerly a BIPRU firm, EdenTree was re-categorised as an IFPRU firm on 1 January 2014, becoming subject to the full requirements of CRD IV. Following a Variation of Permissions in June 2015, the FCA confirmed that EdenTree would revert to a BIPRU firm in October 2015, hence the firm is no longer subject to certain aspects of CRD IV.

Purpose of Disclosure

The FCA framework consists of three Pillars:-

Pillar 1: covers the minimum capital that a firm is required to hold as determined by the size and nature of the firm. EdenTree's Pillar 1 Capital Requirement is based on the greater of:

- The Base Capital Requirement of Euros 125,000
- Credit, market and operational risk, calculated in accordance with the FCA's prudential rules.
- The Fixed Overhead Requirement

Pillar 2: requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks and should be reviewed annually through the Internal Capital Adequacy Assessment Process ('ICAAP').

Pillar 3: requires firms to publish information about the underlying risk management controls and capital position to the market to enable participants to assess a firm's capital and risk exposure.

Scope and Application

EdenTree is a wholly owned subsidiary of the Ecclesiastical Insurance Office plc (EIO). Its ultimate parent company is Allchurches Trust Limited. In accordance with BIPRU 8 it is not part of a group and this disclosure has been prepared on an unconsolidated basis. It is an investment firm whose authorised permissions include the management of segregated mandates as well as portfolio management of collective investment schemes. It also acts as the Authorised Corporate Director of EdenTree Investment Funds ('EIF') a UK Open Ended

Investment Company (OEIC) with six UCITS IV sub-funds and is the Alternative Investment Fund Manager of EdenTree Investment Fund for Charities, a non-UCITS Retail Scheme with two sub-funds. EdenTree principally acts for Professional Clients and retail investor involvement is limited to shareholdings in the sub-funds of the OEIC. EdenTree does not provide any advice directly to retail investors.

We are permitted to omit required disclosures if we believe that the information is immaterial and that such omission would not be likely to change or influence the decision of a reader relying on that information. In addition we may omit disclosures where we believe that the information is regarded as proprietary or confidential. We have made no omissions on the grounds that information is immaterial, proprietary or confidential.

Disclosures are required to be made at least annually. EdenTree will make its disclosure as soon as reasonably practical after the annual accounting date which is 31 December. Publication will be made both on the EIO Group website at www.ecclesiastical.com and the EdenTree website at www.edentreeim.com

Risk Management

The Board of Directors of EdenTree are ultimately responsible for risk management of the business. They operate within the remits of the Group Policy outlined in the EIO Enterprise Risk Management Strategy. On a day to day basis Management Information ('MI') is reported to the Management Committee and is escalated to the Board when appropriate to do so. The Board will consider the MI on a quarterly basis.

Tolerances are set out in the Risk Appetite Statement. The principal risks of the business are Strategic Risk, which include reputation, Financial (Liquidity, Market and Credit Risk) and Operational Risk. The Internal Capital Adequacy Assessment Process (ICAAP) documents the approach and assessment of the risk profile of the Company and the adequacy of its capital. It includes an assessment of all material risks faced by the Company, the controls in place to mitigate those risks and ensures that sufficient capital is maintained to withstand the resulting residual risk. The ICAAP is approved by the Board of Directors.

Market Risk

EdenTree has little exposure to market risk on its own balance sheet and does not make investments for trading or speculative purposes. Investments are only made for the management of the box of the collective investment scheme. It has no appetite to seed new products. The ICAAP does however incorporate stress testing to establish the impact a significant fall in value of assets under management would have on the Company's profitability.

Credit Risk

Credit risk is defined as the risk of loss by the failure of a counterparty to meet its contractual obligations. EdenTree does not have significant exposure to credit risk other than the potential default of a platform provider.

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed procedures, people and systems or external events. The ICAAP assesses the capital requirement needed to cover outsourcing risk, regulatory issues, key person risk and fraud.

Regulatory Capital

The Company maintains sufficient capital to meet the UK regulatory requirements. As a limited licence firm its capital requirements are the greater of:

- Its base capital requirement
- Its Fixed Overhead Requirement
- The sum of its market, credit and operational requirement

The Company's Fixed Overhead Requirement as at 31 December 2015 was £2,725,000 whereas the market, credit, operational, business and liquidity risk requirement was £4,357,000. Tier 1 capital stood at £10,134,000 as at 31 December 2015. Therefore the Company has excess capital of £5,777,000.

The following information is provided in line with the regulatory obligations of EdenTree under Article 450 of the Capital Requirements Regulation. It provides an overview of the remuneration policy and practices of EdenTree for those staff who have a material impact on its risk profile. It also provides an overview of how pay and performance are linked within EdenTree.

Remuneration Disclosures

EdenTree has been subject to the Remuneration Code since 1 January 2011 due to its investment activities. In 2015 EdenTree was classified by the FCA as a BIPRU Level 3 firm under the proportionality rule and hence subject to the requirements of the BIPRU Remuneration Code SYSC19C (the "Code"). The Code governs the remuneration of employees of regulated firms and aims to ensure that firms establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote effective risk management.

For Code purposes, EdenTree does not form part of a UK consolidation group with Ecclesiastical Insurance Office Plc ("EIO"), which is itself outside the scope of this Remuneration Code. Nonetheless, employees of the wider Group who carry out significant influence or management functions for EdenTree, or are otherwise in a position to have a material impact on the risk profile of the firm, are also subject to the requirements of the Code.

This disclosure therefore specifically relates to the remuneration policies and approaches that are applicable to individuals identified as Code Staff in line with the requirements set out in the BIPRU Remuneration Code at 19C.3.3 – 19C.3.6. In 2015, identified Code Staff consisted of 8 employees working within EdenTree and 8 Group employees whose role primarily supports EIO but whose Group function may have a material impact on EdenTree's risk profile.

Remuneration Governance

The remuneration policy of EdenTree is managed and reviewed by the Group's Remuneration Committee ("the Committee") which has established and implemented remuneration policies which meet the requirements of the Code as applicable to a Level 3 firm.

The Committee's roles and responsibilities are set out in full in its Terms of Reference. The Committee is responsible, inter alia, for determining the over-arching principles and parameters of remuneration policy on a Group wide basis; setting the remuneration packages for executive directors, members of the Group Management Board, Code Staff and heads of strategic business units and monitoring compliance with the Code. All members of the Committee are independent NEDs and have the necessary experience and expertise to meet the Committee's responsibilities. The Committee held five meetings during 2015.

During the year, the Committee received external advice from FIT Remuneration Consultants LLP and PwC. Following a competitive tender process, New Bridge Street was appointed as external adviser to the Committee with effect from December 2015. The Committee additionally had access to benchmarking reports from Towers Watson and McLagan. Where appropriate, the Committee received input from the Chairman, Group Chief Executive, Group HR Director, Director of Group Finance, CRO, Director of Group Internal Audit and Group Reward Manager.

The Group's Remuneration Policy applies to all entities within the Group and is aligned to delivery of the Group's strategic objectives. It establishes a set of principles which underpin the Group's reward structures for all Group employees, including Code Staff:

- Reward structures will promote the delivery of long-term sustainable returns. As such, the performance measures in the annual and LTIP will reflect and support the Group's underlying strategic goals and risk appetite and may comprise both financial and non-financial targets.
- Reward will be performance-related, reflecting individual and business performance, including both what is delivered and the way in which results are achieved. However, the Group will adopt a prudent and considered approach when determining what portion of an employee's package should be performance-linked and/or variable so as to ensure that irresponsible conduct and behaviours are neither encouraged nor rewarded and that customer experience is not prejudiced in any way by the operation of its pay arrangements.
- Reward structures will be straightforward and simple for everyone to understand.
- Remuneration packages will be set by reference to levels for comparable roles in comparable organisations. However, benchmark data will be only one of a number of factors that will determine remuneration packages.
- Reward structures will deliver an appropriate balance of fixed to variable pay in order to foster a performance culture, with the proportion of 'at risk' pay typically increasing with seniority. However, high levels of leverage are not appropriate for the Group.
- Reward structures will achieve a balance between short- and long-term incentives, supporting the overall aim of the Group's Remuneration Policy of promoting the long-term success of the Group. The balance between short- and long-term incentive pay is largely driven by role and seniority, with generally a greater role played by long-term incentives for more senior employees.

- The Group will strive to adhere to the highest standards of remuneration-related regulatory compliance and best practice guidelines, while ensuring that the Group's remuneration policies are appropriately tailored to its circumstances, challenges and strategic goals.

EdenTree is conservative in its approach to risk taking and has a low risk appetite. It does not trade on its own account and undertakes investment activities on an agency basis only and subject always to a pre-agreed mandate. EdenTree has comprehensive systems and controls which operate to ensure compliance with this mandate and all applicable FCA Rules.

Components of Remuneration

The Group's reward structures are designed to promote the delivery of long-term sustainable returns and comprise an appropriate balance of fixed and variable remuneration.

Fixed remuneration elements, including salary, pension and benefits recognise responsibility and experience and ensure current and future market competitiveness. Salaries are reviewed annually by the Committee bearing in mind current and future projections for profitability and regulatory capital management, business planning, risk management and individual performance. These criteria are managed via a Code compliant framework of remuneration policies and procedures.

Variable remuneration comprises an annual cash incentive and, for some roles, a long-term performance related cash incentive that rolls over three-year periods. Variable remuneration incentivises and rewards participants for making the Group and EdenTree successful on a sustainable basis. The annual incentive and long-term performance related cash incentives are not guaranteed and are determined and paid subject to performance conditions relevant to the role.

The elements of variable remuneration are delivered in the following ways:

Cash Annual Bonus

A proportion of variable remuneration is delivered in the form of a cash annual bonus which is paid to participants following the end of the financial year. Annual bonuses are designed to incentivise the achievement of key financial and strategic goals and targets that are set for the financial year.

Annual bonuses are subject to a range of challenging financial and non-financial performance conditions linked to key strategic priorities. When agreeing targets, the Committee receives advice from the CRO on the extent to which the scheme meets the Group's risk appetite. Dependent on the role, performance conditions include: the Group's combined operating ratio; UK and Ireland combined operating ratio; the Group's profit before tax; delivery of the Group's and EdenTree's strategic priorities; customer and conduct performance; EdenTree profit before tax; short and long term fund performance; and individual performance targets.

Awards for senior management roles and employees within the investment management function are subject to deferral, providing further alignment with shareholder interests and promoting retention. Awards are deferred in cash over a period of two or three years dependent on the annual bonus scheme applicable.

Cash Long Term Incentive Plans

For some roles a proportion of variable remuneration is delivered in the form of a cash long term incentive plan (“LTIP”). LTIPs are designed to incentivise the achievement of the Group’s and EdenTree’s long-term objectives; to align participants’ interests with those of the shareholders and to promote attraction and retention of talented individuals.

Cash awards under the relevant LTIP vest dependent on the Committee’s assessment of performance against the scheme’s performance conditions over the relevant three-year performance period. Targets are set annually for each successive three-year LTIP period. When agreeing targets, the Committee receives advice from the CRO on the extent to which the scheme meets the Group’s risk appetite. Dependent on the role, performance conditions include: the Group’s combined operating ratio; the Group’s profit before tax (including and excluding fair value investment gains and losses); delivery of the Group’s and EdenTree’s strategic priorities; customer and conduct performance; EdenTree profit before tax; and net growth of relevant funds.

Proposed awards, under both annual and long-term incentive plans are reviewed by the Group’s Risk function and by the Committee, which has regard to overall profitability and risk adjustment when determining awards.

Performance Adjustment of Variable Remuneration Awards

The Committee has discretion to reduce any annual bonus or LTIP prior to award in certain circumstances including (but not limited to): (i) there are issues regarding the Group’s underlying financial strength and position; (ii) there is an actual or potential regulatory censure; (iii) the Group is in material breach of its risk policies (including conduct risk) and/or its values/ethics; and (iv) there is a material diminution in the regard by which the Group is held by its customer base through mismanagement.

Annual bonus and LTIP awards for senior management roles and employees within the investment management function are additionally subject to malus and clawback. The circumstances in which malus and clawback apply are: (i) mis-statement of performance; (ii) regulatory censure, material reputational damage and/or material non-adherence to the Group’s risk tolerances; and (iii) misconduct. Clawback is subject to a three-year time limit.

Variable Remuneration for Control Functions

Annual bonus arrangements for Code Staff engaged in control functions contain a performance condition within the business performance measures which is linked entirely to the performance of the control function the individual is engaged in. The weighting applicable to financial performance measures is proportionately reduced.

Quantitative disclosures

The tables below show the aggregated breakdown of remuneration for EdenTree Code Staff for the 2015 financial year.

As outlined above, EIO is outside the scope of the Code, however Group employees who carry out significant influence or management functions in relation to EdenTree or who are otherwise in a position to have a material impact on the risk profile of EdenTree, have been identified as Code Staff in addition to those Code Staff working within EdenTree. For each individual who is a Group employee, the remuneration disclosed below is total remuneration and will reflect their wider responsibilities within other Ecclesiastical Insurance Group companies, and not solely their responsibilities relating directly to EdenTree.

In preparing these disclosures, consideration has been given to the firm's obligations to individuals under the EU Data Protection Directive (Directive 95/46/EC).

(i) Aggregate information on remuneration, broken down by business area

Aggregate remuneration by business area	Total Remuneration £'000s	Number of Staff
EdenTree	5,416	16

(ii) Fixed and variable remuneration for Senior Managers and Other MRTs

Amounts of remuneration	Senior Management £'000s	All other Material Risk Takers £'000s	Total £'000s
Fixed Remuneration	1,647	1,161	2,807
Variable Remuneration	2,198	368	2,566
Number of Staff	7	9	16

(iii) Types of variable remuneration for Senior Managers and Other MRTs

Types of variable remuneration	Senior Management £'000s	All other Material Risk Takers £'000s	Total £'000s
Cash	2,198	368	2,566
Shares	0	0	0
Share linked instruments	0	0	0
Other	0	0	0

(iv) Outstanding deferred remuneration

Outstanding deferred remuneration	Senior Management £'000s	All other Material Risk Takers £'000s	Total £'000s
As at 31 December 2014			
Outstanding deferred remuneration	2,357	89	2,446
Changes during the year:			
Deferred remuneration awarded during the year	1,224	125	1,350
Deferred remuneration lapsed due to leaving service	0	0	0
Deferred remuneration lapsed due to performance outcomes/adjustments	0	0	0
Vested during the year	640	29	669
As at 31 December 2015			
Outstanding deferred remuneration	2,941	186	3,127

(v) Sign on awards

Sign on awards	Senior Management £'000s	All other Material Risk Takers £'000s	Total £'000s
Total new sign on awards made	0	0	0
Number of beneficiaries of sign on awards	0	0	0

(vi) Severance payments

Severance payments	Senior Management £'000s	All other Material Risk Takers £'000s	Highest Award to a single person £'000s	Total £'000s
Total severance payments made	Aggregate fixed remuneration includes a small amount of severance pay which for reasons of individual confidentiality has not been dis-aggregated. Relevant amounts have been included in aggregate fixed pay in table (ii) above.			
Number of beneficiaries of sign on awards				