Mitsubishi UFJ Asset Management (UK) Ltd.
24 Lombard Street, London EC3V 9AJ
+44 (0) 20 7648 5100
uk.am.mufg.jp

MITSUBISHI UFJ ASSET MANAGEMENT (UK) LTD.

Pillar 3 and Remuneration Policy Disclosure

31 December 2020

1. Introduction

1.1 **Under current FCA regulation implementing the Capital Requirements Directive ("CRD"), Mitsubishi UFJ Asset Management (UK) Ltd. ("MUFG: AM (UK)"), is required to disclose certain information regarding risk management policies, capital resources and capital requirements.**

This document serves to meet the Pillar 3 disclosures required by the Financial Conduct Authority ("FCA") Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"). The rules within BIPRU implement the Capital Adequacy Directive and Capital Requirements Regulation.

The CRD consists of three "Pillars"; The Pillar 1 assessment covers certain direct financial risks and the capital required is determined from a formulaic approach for credit, market and operational risk depending on the firm categorisation. Pillar 2 establishes a joint supervisory process between the firm and the FCA to ensure that sufficient capital is held to meet the firm's present and foreseeable requirements taking into account the firm's risk profile. This capital requirement is in addition to the Pillar 1 requirement. Pillar 3 covers the requirement for public disclosure of the firm's risks, capital and risk management policies.

Disclosure in the UK is governed by the FCA's rules, BIPRU chapter 11.

1.2 In accordance with the requirements laid out in BIPRU chapter 11 the disclosures contained in this document detail the approach of MUFG: AM (UK) ("the Firm") to assessing its own capital adequacy and the risk methodology, policies and objectives.

1.3 MUFG: AM (UK) is a Private Limited Company registered in England and Wales (1842259) and acts as a discretionary investment manager and investment adviser to a range of professional clients. MUFG: AM (UK) is authorised and regulated by the FCA as a Limited Licence BIPRU 50K Firm.

1.4 All figures in this report are as at 31st December 2020, unless otherwise stated. The information contained in this report is based on the audited accounts of the company. The directors are not aware of any material changes required to be made to these figures for subsequent events post 31st December 2020.

1.5 This report has been produced for the sole purpose of complying with the Pillar 3 requirements as stipulated in BIPRU Chapter 11 on the management of certain risks and has not been subject to an audit. This report is not a financial statement and must not be relied upon in making any judgement on MUFG: AM (UK).

1.6 If MUFG: AM (UK) has deemed a certain disclosure to be immaterial, it will be omitted from this report. Under the FCA rules, information is deemed material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

1.7 MUFG: AM (UK) may omit information from this report if under the FCA rules it is regarded as either proprietary or confidential. Information is regarded a proprietary if its disclosure would undermine the Firm's competitive position. This may include any information on its products or systems which if shared with a competitor would render its investments less valuable. Information is regarded as confidential if there are obligations to customers or other counterparty relationships binding it to confidentiality. In the event of information being omitted for any of the above reasons, the Firm will disclose such and reasons for non-disclosure.

1.8 Disclosure in the form of this report will be made on an annual basis unless the Board of Directors or the Management Committee of MUFG: AM (UK) decide that more frequent disclosure is required to meet the Pillar 3 requirements.

1.9 This report is published on MUFG: AM (UK)'s website and will be available in writing on request.

2. Risk Framework

2.1 MUFG: AM (UK) believes that it should hold a reasonable capital surplus over its Pillar 1 and Pillar 2 requirements. These requirements are detailed in its Internal Capital Adequacy Assessment Process (ICAAP).

2.1.1 The ICAAP provides detail of MUFG: AM (UK)'s capital requirements based on its assessment of risks faced by the business in order to protect the solvency of the Firm in the event of unforeseen losses.

2.1.2 The ICAAP is updated on an annual basis or more frequently if in the opinion of the Directors a material change has occurred. The latest ICAAP was updated as at April 2021 and approved by the Board of Directors in April.

2.1.3 The ICAAP is subject to review by the Operational Control Committee and final approval by the Board of Directors. The Committee has the power to recommend changes to the ICAAP and the committee attendees include the Managing Director, Head of Compliance, Head of Investment, Head of Planning and Business Promotion as well as representatives from Internal Audit of Mitsubishi UFJ Trust and Banking Corporation.

2.1.4 MUFG: AM (UK) has assessed the amount of capital it requires under each category of risk based on the risk controls currently in place. MUFG: AM (UK) considers the current capital held for Pillar 1 and Pillar 2 requirements are adequate given the perceived levels of risk faced by the Firm.

2.2 Risk Management Framework

2.2.1 MUFG: AM (UK) has two Group shareholders and is ultimately owned by Mitsubishi UFJ Financial Group Inc. one of the world's largest financial institutions. The risk management processes within MUFG: AM (UK) are governed by the internal policies of MUFG: AM (UK) as well as overriding rules and principle set out by the Group.

2.2.2 MUFG: AM (UK) is a risk averse company and will generally seek to reduce risk to a minimum. A risk management framework exists that is designed to identify, assess, measure and manage exposure to risk. This process is subject to regular review and development by an Operational Control Committee that meets on a monthly basis. This Committee is the main vehicle for assessing risks faced by MUFG: AM (UK) and comprises the senior management of the Firm and a representative from Internal Audit. It has the authority to recommend changes to controls or processes if weaknesses are found.

2.2.3 The Operational Control Committee reports to the Management Committee, which is ultimately responsible for the Firm's risk management systems. The Management Committee is made up of the senior members of the Firm and reports to the Board of Directors on a regular basis. The risk policies and processes are to a large extent dictated by MUFG global risk framework, which seeks to unify control of major items of risk.

2.2.4 The three-tier approach to controlling risk is as follows:

- **Management** – This is the first line of defence in defining the strategy, internal controls and policies required to identify and manage risk in any particular area. Management in each area are responsible for the control of risks and recommendation in changes of policies or procedures to the Operational Control Committee.

- **Committees -** The Operational Control Committee, Management Committee and ultimately the Board of Directors review and approve the risk policies and procedures. The Compliance Committee will also review controls and risk via its monitoring programme.

- **Independent assurance** - Internal Audit carry out regular risk based reviews of the Firm's internal controls and reports are submitted to various parts of MUFG. The Firm is also subject to an annual external audit. Self-assessment is performed by independent parties within the Firm and is also seen as a key control.

2.3 MUFG: AM (UK) is a risk averse company. It seeks to identify risks inherent in or generated by the Firm's activities, to monitor these risks and implement controls so that risk levels are properly managed and mitigated. The keys to achieving this are:

- Efficient use of resources.
- Automation of key processes.
- Effective policies, procedures and controls.
- Staff training.

2.4 Given the limited nature of MUFG: AM (UK)'s business activities the risk systems in place are proportionate to the risks faced by the Firm.

3. Risk Policies and Capital Requirements

3.1 Summary

3.1.1 MUFG: AM (UK) as an investment manager is subject to those risks inherent within the investment management industry. MUFG: AM (UK) derives its income from investment management fees based on a percentage charge of the assets under management. A significant proportion of expenses are fixed costs and therefore MUFG: AM (UK)'s income is exposed to movements in equity and bond values.

3.1.2 MUFG: AM (UK) does not hold clients' assets or money. This function is assigned to custodians appointed by our clients and are therefore protected from any claims of MUFG: AM (UK)'s creditors in the event of liquidation. Should this event occur MUFG: AM (UK) has sufficient capital to effect an orderly wind down of its operations.

3.1.3 MUFG: AM (UK) does not operate its own trading book. With the exception of entering into forward currency contracts to protect the value of its non-sterling fee income and the placement of its surplus cash on deposit, no trading takes place for its own assets.

3.1.4 MUFG: AM (UK) has a liquidity policy to ensure it maintains sufficient cash to meet its requirements. To this end cash is placed on deposit with either a group company or with a third party bank chosen by the Management Committee after assessing the potential risks of default.

3.2 Operational risk

3.2.1 MUFG: AM (UK) as a Limited Licence BIPRU firm is required to calculate its operational risk requirements under Pillar 1 as the greater of a Fixed Overhead Requirement (FOR) as defined by the FCA rules or the sum of its credit risk and market risk. In MUFG: AM (UK)'s case the FOR will be the greater figure and this is used in its capital calculations. The FOR is equal to approximately 25% of its annual expenditure less certain allowances for variable costs.

3.2.2 In addition to the FOR for Pillar 1 calculation requirements it is essential that a firm assesses all risks and provides sufficient capital to cover such. Operational risks in this context can be defined as risks that are not credit risk or market risk and are therefore wide ranging.

3.2.3 MUFG: AM (UK) seeks to manage its operational risk by;

- Identification of the key risks.
- Establishing clear policies, procedures and controls.
- Regular reviews of results and effectiveness of controls.
- Provision of management information.
- Implementation of suitable systems to automate business practices where possible.
- Staff training.
- Maintaining suitable records.

3.3 Credit risk

3.3.1 MUFG: AM (UK)'s credit risk is the investment management fees cannot be collected and exposure to banks where the collected fees have been deposited. The Firm's Cash deposits are placed with either the Bank of Tokyo-Mitsubishi UFJ London Branch or with external parties who in the opinion of the Management Committee represents a high degree of security. MUFG: AM (UK) does not establish credit limits with any counterparty.

3.3.2 MUFG: AM (UK) has adopted the simplified standardised approach to credit risk and calculates its risk in accordance with the FCA rules as 8% of the total risk weighted exposures amounts for the Pillar 1 requirements.

MUFG: AM (UK) has assessed it credit risk exposure as at 31st December 2020 to the following exposure classes as follows;

Institutions	£197,028
Corporates	£657,481

3.4 Market risk

3.4.1 MUFG: AM (UK) does not engage in propriety trading with the exception of forward currency deals to hedge its non-sterling income. MUFG: AM (UK)'s market risk exposure is limited to the outstanding forward foreign currency deals in existence at any point in time. The risk is calculated in accordance with the FCA's BIPRU rules and stands at £197.028.

3.4.2 Pension fund risk

3.4.3 Some of MUFG: AM (UK)'s staff belonged to a defined benefits group pension scheme. This scheme was closed to new joiners some time ago and benefits to existing employees fixed as a percentage of salary at that time. The assets of the scheme are held separately in a pension trust. As the scheme covers several companies in the group, the Firm takes advantage of the multi-employer defined scheme provisions under FRS 17.9 and underwrite costs associated to its employees covered by the scheme. Contribution made into the scheme have been agreed by the Board of Directors based on the latest actuarial report and are charged to the P&L account.

4. Capital Resources

4.1. MUFG: AM (UK)'s capital structure is extremely simple and does not involve any complex capital structures.

Tier 1 capital is the highest ranking form of capital and is made up of permanent share capital and profit and loss reserves. As at 31 December 2020 MUFG: AM (UK)'s Tier 1 Capital based on the audited accounts stood at £13.87m. The table below gives the breakdown of capital.

		£'000's
Tier 1	**Capital**	
	Permanent share capital	2,000
	Profit and loss account and other reserves	13,870
		15,870
Tier 2	**Capital**	
	Deductions from total Tier 1 and 2	
	Material Holdings	0
Tier 3	**Capital**	13,870
	Total Capital before Pillar 1 deductions	13,870
	Pillar 1 Capital requirement	1,441
	Surplus capital after deductions for Pillar 1	12,429

5. Remuneration Disclosure

5.1 Background

The FCA's Remuneration Code as detailed in SYSC 19C of the FCA Handbook implements the requirements of the Third Capital Requirements Directive.

MUFG: AM (UK) has devised a Remuneration Policy in accordance with the Remuneration Code to ensure that potential conflicts are managed and staff are not rewarded for excessive risk taking.

5.2 Scope

The Firm's Remuneration Policy does not just apply to bonus payments but to all aspects of remuneration which could have a bearing on effective risk management including salary, any long term incentive plans, pensions and severance payments. The Firm's Policy applies to all staff, not just those identified as Code Staff (see below).

5.3 Application

MUFG: AM (UK) is a BIPRU limited licence firm which derives its income from investment management fees (agency business) earned from managing its clients' assets. MUFG: AM (UK) does not engage in proprietary trading and other business linked to balance sheet risk taking.

MUFG: AM (UK) employs fund managers who are authorised to manage the firm's clients' assets according to strict mandates agreed with the clients. Risks are taken in line with the client mandate and remuneration structures are not geared so that the risk profile of the clients is increased. Variable remuneration is based in actual income earned (from fund management fees) and not speculative trading thus maintaining the alignment between firm and client interests. Variable income is deemed to be less risky than fixed income as it is matched to the revenue and profitability of the Firm.

MUFG: AM (UK) has determined that it is a Tier 3 Firm and has received the FCA's Remuneration Code proportionately application.

5.3.1 Decision Making Process

Due to its size, MUFG: AM (UK) does not have a separate Remuneration Committee. The Firm's Board has delegated the ultimate responsibility for determining fixed and variable remuneration levels to its Managing Director. The Managing Director's salary and other benefits are determined by one of our shareholders from whom he is seconded.

5.3.2 Link Between Pay and Performance

MUFG: AM (UK) has adopted a flexible policy on pay and conditions. Remuneration consists of a salary (reviewed at least annually) and a discretionary bonus payment. There is a maximum of 100% but no minimum limit for the discretionary bonus, enabling the firm to adopt a flexible policy based on financial conditions (derived in part from the fee income received by the Firm as a percentage of net asset values) and the performance of the individual.

5.3.3 Code Staff

All staff that are registered with FCA as Significant Influence Functions and also are members of the Firm's Management Committee have been identified as Code Staff.,

5.4 Quantitative Information on Remuneration

The aggregated remuneration of Code Staff for the year ending 31st December 2020 was £1,971,773. This figure includes both fixed and variable elements of remuneration.