



AIG Asset Management (Europe) Limited

Pillar 3 Disclosure and Policy

2020

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1. Introduction

The purpose of this document is to set out the AIG Asset Management (Europe) Limited (“AAMEL” or the “Firm”) Pillar 3 disclosures on risk management and capital adequacy as at 31 December 2019 with a forward looking projection of financials for 2020.

These disclosures are prepared in accordance with the Capital Requirements Directive III (“CRD III” or the “Directive”) which implements the Basel II Accord (Capital Framework) in the European Union. CRD III established a revised regulatory capital framework across Europe governing the amount and nature of capital that must be maintained by investment firms like AAMEL.

In the United Kingdom, the rules are set out in the Financial Conduct Authority (“FCA”) General Prudential Sourcebook (“GENPRU”) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”).

The framework consists of three ‘Pillars’:

1. **Pillar 1:** sets out minimum capital requirements (for credit, market and operational risk);
2. **Pillar 2:** requires the firm to assess whether the risks it faces require additional capital to be held.
3. **Pillar 3:** requires the firm to publish certain information about its risks, capital and risk management controls and processes.

The Pillar 3 ‘disclosure rules’ are set out in the FCA Handbook (“BIPRU 11”).

1.1 Materiality

The disclosure rules contained in BIPRU 11 allow the Firm to omit one or more of the required disclosures if the Firm believes them to be immaterial. Materiality is based on the criteria that the omission of information would be unlikely to change or influence the decision of a user relying on that information. Firms are also able to omit information on the grounds that it is proprietary or confidential.

1.2 Frequency

AAMEL’s accounting reference date is 31st December each year. The required disclosure will be published annually in conjunction with the date of publication of the Firm’s financial statements. However, disclosure will be published more frequently than annually if there are any material changes which impact the business.

1.3 Media and Location

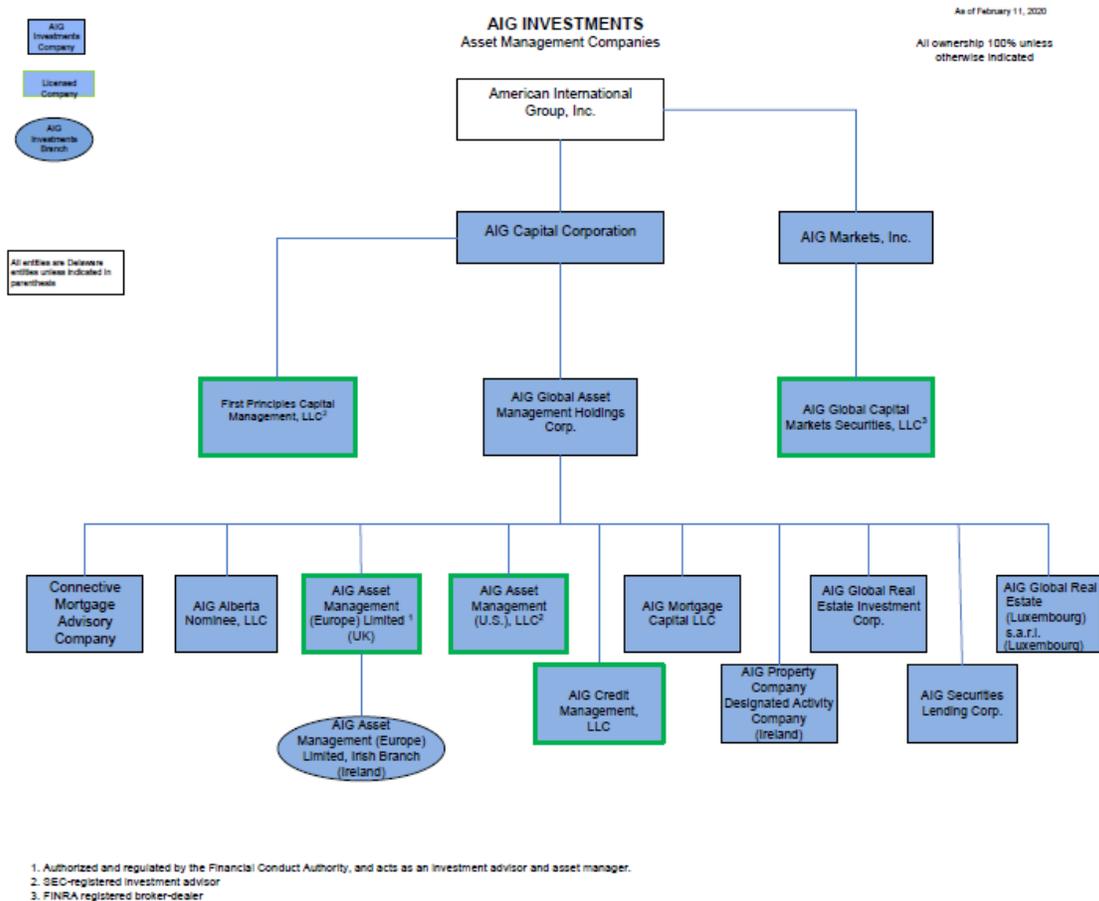
AAMEL’s Pillar 3 Disclosure and Policy are publicly disclosed on the AIG website.

1.4 Appropriateness and Accuracy of Disclosures

This Pillar 3 Disclosure and Policy is prepared by AAMEL’s Compliance team. The ICAAP and Capital figures are calculated by the Finance team each year. The disclosures are subject to review and challenge by the ICAAP working group and AAMEL Risk Committee (“RC”) before being notified to the AAMEL board.

2. AIG Asset Management (Europe) Limited

AAMEL is an indirect wholly-owned subsidiary of American International Group, Inc. (“AIG Inc.”). The Firm is a direct subsidiary of AIG Global Asset Management Holdings Corp.



AAMEL is authorised and regulated in the UK by the FCA and is categorised as a BIPRU firm. As an authorised firm, AAMEL has permission to ‘offer’ certain regulated products and services to eligible counterparties and professional clients.

These include:

- advising on investments (other than pension transfers and pension opt outs);
- arranging (bringing about) deals in investments;
- arranging safeguarding and administration of assets;
- making arrangements with a view to transactions in investments;
- dealing in investments as agent; and
- managing of investments.

2.1 AAMEL Governance

The Firm's governance structure includes a Board of Directors and senior managers who lead the key executive, investment and administrative support teams. Day-to-day decisions affecting the Firm's business are taken by the London or Dublin-based senior management team.

The Board meets at least annually and usually 3-4 times a year to receive finance and business reports, discuss topical issues, including progress toward regulatory objectives such as ICAAP, discuss the Firm's strategy and review reports from the RC and relevant functional areas.

3. Risk Governance Framework

As a Firm, AAMEL is exposed to a number of different risks, some of which are specific to the Firm and others which are inherent to participants in the asset management industry. The Firm accepts that the taking of risk is an inherent part of managing its business.

AAMEL maintains a risk management framework and the RC is responsible for overseeing the identification and management of risk on behalf of the AAMEL Board. The RC reports directly to the Firm's Board of Directors and is chaired by the AAMEL Chief Risk Officer ("CRO").

4. Risk Management & Risk Management Objectives

The Firm's Risk Management function is headed by the CRO who reports to the AAMEL Board. The CRO maintains the Firm's Risk matrix and provides a number of reports on a quarterly basis to the RC, including a Risk Events schedule and Key Risk Indicator Report.

The objective of the AAMEL risk management framework is to:

- ensure that all material risks of the Firm are adequately identified and assessed;
- enable the Board to establish processes and structures sufficient to oversee and mitigate such risks; and
- catalogue and quantify the probable impact of such risks on the Firm's capital.

Risk and risk control are integral to the Firm's business. The Firm's approach to risk management is risk-based and is driven by a risk and control self-assessment process that involves all of the key functional areas of AAMEL and additional internal and external data analysis.

The main risks to the Firm are:

- Business risk
- Operational risk (incl. processing and systems risk, people risk, outsourcing risk and business disruption risk)
- Financial risk
- Credit Risk (incl. Counterparty Risk)
- Market Risk
- Interest Rate Risk
- Liquidity Risk
- Legal & Regulatory Risk

4.1 Business Risk

The main business risks facing the Firm are its ability to (a) retain clients, (2) generate sufficient profitability from these clients, and (3) execute its strategy. AAMEL is primarily an in-house asset manager providing investment advisory and asset management services to AIG affiliates in the US and worldwide. This 'affiliate' client base means that Business Risk to the Firm is therefore considered very low.

4.2 Operational Risk

Operational risk is defined as the risk of loss, or other adverse consequences, resulting from inadequate or failed internal processes, people, systems, or from external events. Operational risks may lead to the following impacts: unintended economic losses or gains, reputational harm due to negative publicity, censure from supervisory agencies, operational and business disruptions, and / or damage to customer relationships.

The Firm's Operational risks are considered within its Risk Control Self-Assessment process and those risks, controls and mitigating actions are factored into its ICAAP and its supplementary materials.

4.2.1 Outsourcing Risk

Outsourcing risk generally refers to the risk that a service provider to which material operational tasks are delegated by the Firm does not perform its duties as required. The risk may arise, for example due to business continuity issues, negligence, liquidation or contract termination. To manage performance of duties the Firm has contracts and service level agreements for all key outsourced activities which provide clear guidance as to the expected level of service, along with remedies for non-compliance.

4.2.2 Business Disruption Risk (inc. Systems Risk)

The management of Business Disruption Risk (Business Continuity and Business Interruption risk) is overseen by the RC. The Firm's business continuity plan provides for a variety of

potential business interruption disaster scenarios and is live tested at a hot site on an annual basis.

Systems risk, the risk that key business systems are unavailable, is considered in a business continuity risk sub-category and is actively managed by the Firm's information technology team. All business data is backed up daily and copies are held online in cloud solutions. Contingency plans ensure that data can be recovered at a number of recovery sites.

4.2.3 People Risk

People risk has been categorised under operational risks due to the importance of having experienced, motivated employees dealing with client portfolios and within management and support teams.

The Firm strives to offer a competitive compensation structure which is designed to attract and retain experienced and competent employees. Long term incentive plans and bonus structures are designed to encourage individual performance, team work and reduce risk taking, whilst aiming to retain key employees for longer periods.

AAMEL is a core firm under the Senior Managers and Certification Regime. All employees are subject to the FCA Conduct Rules and undergo an annual goals and performance review process. Some employees are categorised as Certification staff and must be assessed as Fit and Proper to perform their role and are certified on an annual basis. All staff must maintain competence and capability and complete required training as appropriate for their role.

4.3 Financial Risk

Financial risks refer to the risk of losses arising from the management of the Firm's own financial affairs. These include the possibility that applicable tax and financial reporting regulations and standards will be interpreted or applied inappropriately. These risks are actively managed and mitigated by the Firm's in-house finance professionals, who work closely with specialist resources shared throughout AIG Inc. and external advisors, including consultants and auditors, who assist in interpreting and verifying the application of such rules and regulations.

4.4 Credit Risk (including Counterparty Risk)

Credit risk assumed by the Firm includes the risk of default by banks where the Firm has placed cash or by the issuers of short term securities in which the firm has invested. The Firm's in-house research team monitors all approved banks and issuers on a continual basis and if an increased risk of loss was identified, bank deposits could be moved to another financial institution and short term instruments sold. The likelihood and impact of a 'bad debt' is considered low from a capital perspective.

4.5 Market Risk

The balance sheet of the firm is directly exposed to market risk through the FX mismatch between its assets and liabilities (Equity is mainly held in USD and GBP). In particular the USD net assets can create some volatility on the income statement and the retained earnings when

translated into GBP. AAMEL is also indirectly exposed to market risk through the revenue it derives from the value of the client portfolios it manages. Although the P&L from these portfolios belongs to its clients, the fees charged by the Firm are directly derived from the value of these portfolios. A large portion of the revenue of the firm will therefore experience the same volatility as its client's investment portfolio.

4.6 Liquidity Risk

Liquidity risk to the Firm is considered negligible and relates primarily to the potential inability to meet its on-going business obligations. In the absence of funding liabilities, and with high levels of liquid assets relative to expense commitments, the Firm's overall liquidity position is considered to be low risk. The Firm, in accordance with AIG group policy, holds sufficient amounts of cash and short term investments (which are the primary assets on its balance sheet) as noted in section 6.

4.7 Legal and Regulatory Risk

The Board of Directors is focused on ensuring that a robust regulatory control framework continues to be developed and deployed in order to reduce risk arising from regulatory, legal and compliance breaches. The Firm's risk control architecture ensures that an understanding of regulatory risk is cascaded through the Firm's departments, leading to its recognition and management being embedded within all levels of the organisation.

Compliance manuals, a comprehensive monitoring programme and corporate policies exist for regulatory requirements with inbuilt deadlines including automated reminders to ensure all returns are completed within required timeframes. Individuals are specifically tasked with compliance for regulated activities and any non-compliance is reported and included in the Compliance team's quarterly report to the RC and Board. Conduct rule breaches must be notified to the FCA on an annual basis for Conduct Rules staff and within a week for Senior Managers.

Legal risks, including risks associated with breach of contract (including litigation risk) and similar transactional matters, are actively managed by dedicated in-house legal resources, shared AIG Inc. resources, and external advisors.

5. Internal Capital Adequacy Assessment Process ("ICAAP")

The Firm's overall approach to assessing the adequacy of its internal capital is set out in the ICAAP.

The ICAAP process involves separate consideration of risks to the Firm's capital combined with stress testing using scenario analysis. The level of capital required to cover risks is a function of impact and probability. The Firm assesses impact by modelling the changes in its income and expenses caused by various potential risks over greater than a one-year time horizon. Probability is assessed using both a qualitative and quantitative approach.

In addition, the Firm has reviewed the guidance in BIPRU 2.2.61-65 and the output of its risk reviews, including a quantification of the risks identified by relevant business heads. This has

identified a number of key business risks which have been classified against the risk categories contained in GENPRU 1.2.30R.

The ICAAP evidences that the Firm has adequate controls in place to identify and manage material risks and stress scenarios, and has adequate levels of regulatory capital for its size and complexity over a projected period of three years on a go forward basis.

5.1 ICAAP Governance Process

The RC has established an ICAAP Working Group which is responsible for drafting and maintenance of the Firm's ICAAP, is co-chaired by the CRO and Head of Finance and includes as members a representative cross-section of senior business managers. The members bring detailed business knowledge and experience to the working group and apply their expertise to specific sections of the ICAAP. The ICAAP is overseen and approved by the RC prior to formal review and approval by the AAMEL Board of Directors.

6. Capital Resources

The Firm's capital resources and projected capital and regulatory capital positions are set out below. Capital resources calculations are based on AAMEL's audited financial statements as at 31st December 2019.

Tier 1 Capital

Capital resources total £18million (excluding Deferred Tax Asset "DTA" of £2.3 million) and comprise Tier 1 capital as follow:

- Ordinary Share Capital £10.30 million
- Share Premium of £2.48 million
- Profit & Loss Reserves of £9.70 million
- Other Reserves £1.13 million

In accordance with GENPRU 2.1.45R (calculation of variable capital requirement for a BIPRU firm), the Firm's Pillar 1 capital requirement has been determined as being the higher of its fixed overhead requirement and sum of the credit and market risk requirements.

Pillar 1 fixed overhead requirement for 2019

AAMEL's fixed overhead requirement (based on AAMEL's 2019 audited financial statements) is £9.7 million. The 2020 projected Pillar 1 fixed overhead requirement is also £8.7 million.

ICAAP Capital Requirement

The Firm's ICAAP capital requirements, taking into account the Fixed Overhead Requirement and the additional capital from an orderly wind down scenario, is £15.5 million based on its 2019 financial statements and the Firm's risk profile (Projected 2020: £14.5).

The Firm holds £23.6million of capital (ex-DTA) which is above the ICAAP capital requirement of £15.5 million leaving a surplus of £8.1 million based on 2019 financials.

The surplus for 2020 has been estimated as £12million.

7. UK Stewardship Code Disclosure Statement

Stewardship is defined as the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Stewardship activities include monitoring assets and service providers, engaging issuers and holding them to account on material issues, and publicly reporting on the outcomes of these activities. These activities support the functioning of the UK's financial markets by enhancing their quality and integrity.

The Financial Reporting Council ("FRC"), an independent regulator whose mission is to promote transparency and integrity in business, sets the UK Corporate Governance and UK Stewardship Codes and also monitors and oversees UK standards for financial reporting, accounting and auditing.

The FRC published the 2020 Stewardship Code, a substantial and ambitious revision to the 2012 edition of the Code, which takes effect from 1 January 2020. The new Code sets high stewardship standards for asset owners and asset managers, and for service providers that support them. In particular, the new Code establishes a clear benchmark for stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. The Code also contains new expectations of how investment and stewardship should be integrated, including environmental, social and governance issues. The Code asks investors to explain how they have exercised stewardship in relation to a broad range of asset classes – not only listed equities, which was the previous focus. This includes fixed income, private markets, infrastructure investments, plus investments in assets listed or located outside the UK. The Code is designed to accommodate the different terms, investment horizons, rights and responsibilities of each of these asset classes.

Upon advice from the Firm's legal advisors, AAMEL does not commit to comply with the code and does not consider itself as being a signatory to the Code due to investing largely in asset classes other than equity shares, and as such explains its alternative investment strategy in its disclosure statement using the FRC principles as a guide, noting that explanation of the individual principles is not strictly required.

8. Remuneration Code Disclosures

The BIPRU Remuneration Code contained in Chapter 19C of SYSC (the "Code" incorporates many of the same remuneration provisions introduced by CRD 3 and the accompanying CEBS Guidelines. BIPRU 11 includes a requirement to disclose publicly a firm's approach to its remuneration policy and practices in the promotion of sound and effective risk management.

The FCA expects AAMEL to apply the Code in a way and to the extent that is appropriate to its size, internal organization and the nature, scope and complexity of its activities. The COMCO (as defined in 8.1 below) has considered the BIPRU remuneration principles, proportionality rules and the accompanying FCA General Guidance on Proportionality and has assessed that it is appropriate for AAMEL to apply the Code in a proportionate manner.

8.1 AAMEL's Application of the Remuneration Code

AAMEL has implemented a remuneration policy in accordance with the requirements of the Code and as part of this process the Firm has created a local compensation committee ("COMCO"). COMCO is a subcommittee of, and reports to, the AAMEL Board of Directors. In accordance with COMCO's terms of reference, membership of COMCO is designated by the AAMEL Chief Executive Officer and includes representatives of Compliance, HR and Legal.

The COMCO has a limited mandate to:

- Assess and advise the Board with respect to compliance with the Code, taking into account the nature, scale and complexity of AAMEL operations;
- Identify employees included within the scope of the Code;
- Monitor FCA rules and guidance regarding the Code and amendments to the Code; and
- Determine which Code rules, if any, apply to AAMEL's business.

Although COMCO does not directly set or formulate the remuneration structures that are applicable to AAMEL, the COMCO does have a duty to raise concerns if they believe that these structures undermine effective risk management in the Firm. In these cases, COMCO would have a duty to:

- develop recommendations to the Board, as appropriate and necessary, with respect to the formulation and preparation of more detailed or comprehensive policies with respect to remuneration, in each case to the extent necessary to facilitate compliance with the Code; and
- review and develop recommendations regarding AAMEL remuneration structures, particularly variable remuneration, risk-adjustment and deferral, in each case to the extent necessary to facilitate compliance with the Code.

8.2 Code Staff

AAMEL consider the following staff to be Code Staff:

- senior front-office managers (portfolio management, trading, research, investment advice);
- heads of support and control functions (e.g. credit/market/operational risk, legal, compliance);
- staff designated in Significant Influence Function roles;
- risk takers in the business; and

- staff with total remuneration packages that take them into the same remuneration bracket as senior management and risk-takers and whose professional activities have a material impact on the firm's risk profile.

8.3 The Link between Pay and Performance

AAMEL, as part of the greater AIG group, operates a pay-for-performance philosophy. Individuals are engaged by the Firm under a contract of employment which sets out a fixed annual salary and target incentive under AIG's annual incentive plan whereby a target short-term (and, if applicable, long-term) incentive, an annual variable award, is established.

The performance year runs from January through December of each calendar year. The performance measures used to determine whether and how much the plan will pay out are divided into a number of categories which are intended to incentivise staff to balance financial and non-financial, near- and long-term, and individual and group-wide interests.

Two factors impact annual incentive awards:

- Individual performance, measured in part by achievement of specific metrics and in part by achievement relative to peers, is evaluated through the performance management process.
- Incentive pool funding – the amounts available to fund annual incentives for Firm employees are also dependent in part on the overall business performance of the relevant AIG operating unit, the Firm and its group affiliates.

8.4 Long Term Incentive Plan (LTIP)

LTIP is a tool targeted at keeping core leaders within each business unit focused on overall business unit results. LTIP's purpose is to attract, retain and motivate highly qualified employees who will contribute to AIG's long-term success, to motivate key employees to achieve performance objectives that align the business strategy of AIG as a whole and to allow them to participate in increases in the price of AIG common stock.

LTIP targets are based on market data with performance criteria and achievement evaluated by the Compensation and Management Resources Committee of the AIG Inc. board of directors.

8.5 Aggregate Remuneration Paid - 2019

Number of Staff	139
Number of Code Staff	26
Total remuneration	£12,645,360
Total variable remuneration	£6,964,296
Total fixed remuneration	£5,036,487
Pension & Other benefits	£591,899
Fixed remuneration as a % of total remuneration	40%
Pension & Other benefits as a % of total remuneration	5%
Variable remuneration as a % of total remuneration	55%