

Capital Requirements Directive Pillar 3 Disclosure

June 2020

1. Background

The purpose of this document is to outline the Pillar 3 disclosures for BlueBay Asset Management LLP (“the LLP”).

The LLP is a Subsidiary of BlueBay Asset Management (Services) Ltd (“BBAMS”). BBAMS is the Parent Company of seven directly and indirectly owned Subsidiaries (referred to as “BlueBay” or the “BlueBay Group”). BBAMS is 100% owned by the Royal Bank of Canada (“RBC”).

The LLP is a UK limited liability partnership which invests for clients across the fixed income spectrum, from active long-only 'benchmark aware' portfolios to hedge funds. The LLP also blends investment styles and use a range of sophisticated tools in order to exploit all factors of return.

2. Scope of Regulation

The LLP is authorised by the Financial Conduct Authority (“FCA”) as a Full-scope UK Alternative Investment Fund Manager and is categorised by the FCA for Prudential Regulatory purposes both as a Collective Portfolio Management Investment firm (“CPMI firm”) and a BIPRU firm. The LLP is subject to consolidated disclosures by the FCA.

3. Basis of Disclosure

The LLP benefits from the FCA Capital Requirements Regulation derogation allowing it to carry forward the CRD III Rules as at 31 December 2013 and as such, the following disclosures are in accordance with the requirements of Chapter 11 of Building Societies and Investment Firms (“BIPRU”). The disclosures included in this document relate to the LLP and the BlueBay Group. The disclosures cover both the qualitative and quantitative requirements. The LLP is required to meet the requirement of the FCA’s Capital adequacy framework. This framework consists of three pillars:

- Pillar 1 Capital Requirement calculated according to the FCA rules for limited licence firms;
- Pillar 2 requires firms, and the FCA, to take a view on whether additional capital should be held against capital risks not covered by Pillar 1; and
- Pillar 3 requires firms to publish certain details of their capital, risks and risk management process.

BIPRU 11 Disclosure (Pillar 3) requires that a firm subject to the provisions of the Directive must disclose the relevant information required under this rule unless the information is believed to be immaterial, proprietary or confidential.

The disclosures in this document are made in respect of BlueBay in accordance with the BIPRU rule, to set out the key risks facing BlueBay, how it manages those risks, and how it has satisfied itself that it has sufficient capital in respect of those risks.

4. Capital resources

The LLP maintains sufficient capital to meet its regulatory requirements and takes a prudent approach to the management of its capital base. The amount and type of capital resources of the LLP, at 31 October 2019 is set out in the table below:

Capital	£000
Tier 1 Capital – Partnership Capital	48,380
Less deductions from Tier 1 Capital – Intangibles	-
Total Capital	48,380

As a CPMI firm, the LLP is required to hold a liquid capital in excess of the following:

Higher of (a) or (b) plus (c):

- (a) Capital resource requirement for internally managed Alternative Investment Funds (“AIFs”) of €50,000 plus funds under management requirement which is calculated as 0.02% of funds under management in excess of €250 million (where funds under management is calculated as the sum of all AIFs managed by the LLP); or
- (b) Fixed overheads requirement which is calculated as 25% of the LLP’s annual fixed overheads; plus
- (c) Professional negligence capital requirement which is calculated as 0.01% of AIFs funds under management.

Capital resources of the LLP as at 31 October 2019, is set out in the table below:

Capital	£000
Higher of:	
(a) Capital resource requirement plus funds under management requirement; or	9,296
(b) Fixed overheads requirement; plus	22,636
(c) Professional negligence capital requirement	4,648
Total capital requirement as a CPMI firm	27,284
The LLP excess over requirement	21,096

The LLP’s capital requirement amounts to the highest of the three components below:

- Pillar 1 capital requirement, which is calculated according to the FCA rules;
- Pillar 2 capital requirement, which is based on the LLP’s own assessment of adequate capital required to mitigate key risks identified; and
- Cost of an orderly wind down, being the capital required to perform an orderly wind down of the business.

Pillar 1 capital requirement – BlueBay Asset Management LLP

As a BIPRU Limited Licence 50K firm, the LLP's Pillar 1 capital resource is determined at 31 October 2019 as being the highest of:

- Base capital requirement of €50K;
- Fixed Overhead Requirement; and
- The sum of Credit and Market Risk Requirements.

Risk	£000
Credit Risk	6,951
Market Risk	2,844
Fixed Overhead Requirement	22,636

The LLP's Pillar 1 capital as at 31 October 2019 is therefore determined as the Fixed Overhead Requirement of £22,636k.

As a Limited Licence firm, the Pillar 1 capital requirements for the LLP do not include an operational risk capital component. This is considered as part of the Pillar 2 capital requirement.

BlueBay Group

The BlueBay Group regulatory position as at 31 October 2019 was as follows:

		£000
Regulatory Capital		177,149
<u>Pillar 1 Requirement</u>		
Credit Risk	14,882	
Market Risk	1,013	
Fixed Overhead Requirement	24,597	
Regulatory Requirement *		24,597
Surplus of own funds		152,552

*: The Regulatory Requirement is the higher of the sum of Credit and Market Risk or the Fixed Overhead Requirement.

Pillar 2 capital requirement

Having set out the risk appetite framework management goes through the following process:

1. Identifying key risks to the firm through completion of the annual Risk Register review.

The Risk Register is a document which BlueBay uses to monitor operational risk and which is formally approved by the LLP Board on an annual basis. This was last approved in March 2019 with the 2020 Risk Register due to be approved at the June 2020 Board Meeting.

The Risk Register records any perceived weaknesses of BlueBay's operational and control processes and assigns a score to each identified risk by taking into account the likelihood and impact of the risk occurring. Both likelihood and impact scores range from 1 to 4, with 16 being the highest total score and therefore the riskiest. Existing controls and mitigants are then considered leading to a lower net 'risk score'.

The four key risks areas facing BlueBay have been identified as:

- i. **Business Risk**, which are internal or external risks related to the execution of BlueBay's business strategy;
- ii. **Investment Risk**, which is the risk that BlueBay's fund products (meaning all funds including segregated mandates) fail to deliver the expected level of performance;
- iii. **Group Financial Risk**, which are risks from market fluctuations, counterparty failures or withdrawal of liquidity affecting the BlueBay Group directly; and
- iv. **Operational Risk**, which are risks related to people, processes, systems, cyber/information security and external events.

2. Analysing the potential impact on BlueBay if a key risk were to materialise and any management action that would be taken.

For each risk within the Risk Register (key risk), a scenario is developed. In some instances, multiple scenarios are considered, and one is selected for the risk in question. Scenarios are developed using the Risk Register 'contributors' and 'mitigants' for guidance, as well as using input/verification from the relevant function heads. The target severity level is for a 'worst case or very severe scenario', but not something that is impossible/near impossible. This is described as an event that would be around a 1 in 100-year scenario/impact.

The associated financial impact for each scenario is also calculated via a 'cost breakdown'. The impact will be in the form of a 'one-off' hit; e.g. compensation, replacement costs etc, and/or a loss of AUM/revenue. The analysis uses data as a guide where possible; e.g. historic FX movements, segregated mandate take-on sizes, etc. and there are in some cases working assumptions made regarding mitigants including insurance coverage, management action (e.g. bonus reduction), etc.

3. Determining whether the scenario/impact could result in the erosion of BlueBay's capital base and if an amount of capital is required to cover it.

The key inputs for each scenario are in the form of:

- Additional one-off cost (example: fine, un-insured trading loss, litigation settlement etc.);
- Drop in Assets under Management; and
- FX rates.

'One-off' costs impact the 2020 (year 1) profit forecast. AUM/Revenue reduction and FX are considered over the period to the end of October 2022. A one-off cost of £1m would not lead to a P&L reduction of £1m as the vast majority of costs incurred attract a tax deduction. Therefore, a one-off cost of £1m will generally lead to a c.£0.8m reduction in post-tax profits due to the tax saving of c.£0.2m. An example of an exception to this rule is fines which are not generally tax deductible.

4. Summing up the capital required for each risk to give BlueBay's total Pillar 2 capital.

BlueBay identified a total of 31 risk scenarios as part of the risk assessment and projected the respective financial impact of each scenario. Where BlueBay becomes loss making due to the scenario/impact(s), BlueBay will need to hold capital against this risk materialising. For the Pillar 2 capital requirement, BlueBay takes the largest potential impact from the scenario analysis and adds this to a BlueBay Credit Risk and Market Risk Requirement.

Cost of an orderly wind-down

An exercise was also performed to determine the cost of an orderly wind-down of the business.

Summary

The minimum regulatory capital is the Pillar 1 capital requirement, being higher than both the Pillar 2 capital requirement and the cost of an orderly wind-down. Stress and scenario testing were then performed to consider the effect of extreme scenarios on BlueBay's Group regulatory capital. BlueBay is required to hold £52.0m of capital against its regulatory requirement.

5. Risk Management Framework

Risk management at BlueBay is used to:

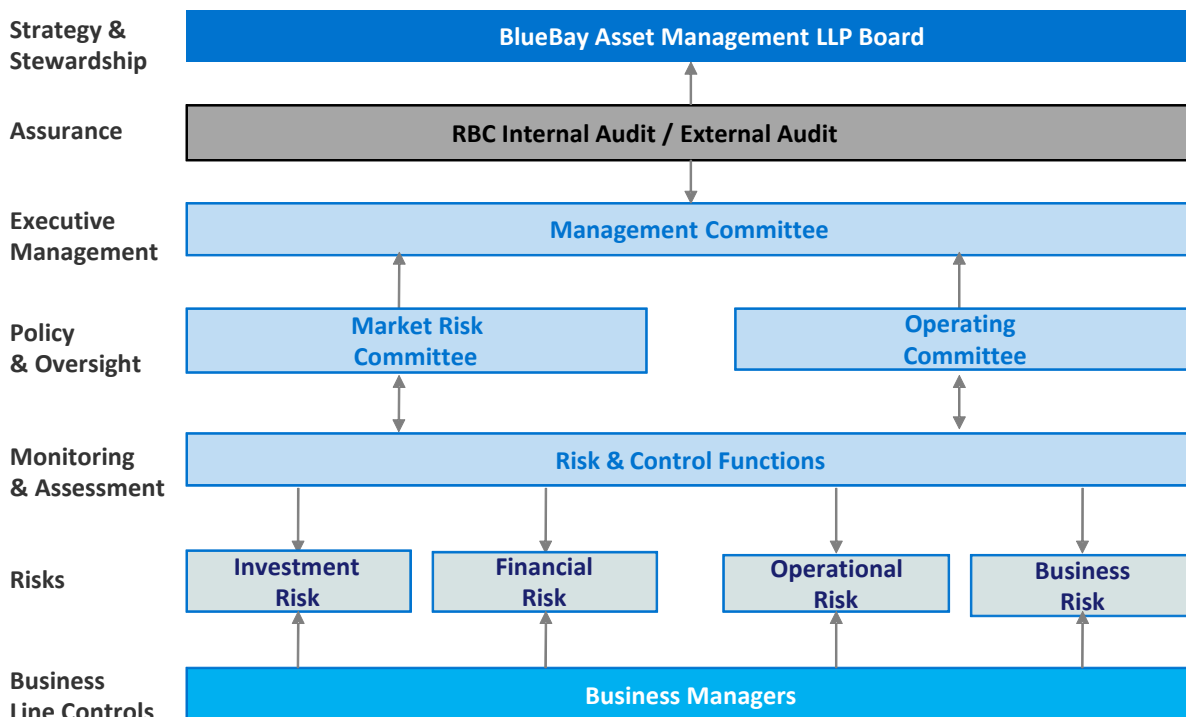
- Identify and define ownership of risks;
- Quantify the acceptable level of risks using Risk Appetite statement;
- Mitigate and manage the identified risks within the context of the overall risk appetite; and
- Provide ongoing monitoring of the identified risks for escalation as needed throughout the year.

Risk management is the responsibility of all staff and it is part of their daily activities. This is achieved through a strong risk governance framework that embeds a strong risk-based culture within BlueBay, independent reporting and robust systems and controls, which are regularly reviewed by staff responsible for risk monitoring and external reviews by independent third parties.

The key elements of BlueBay's risk framework are as follows:

Risk Governance

BlueBay's Governance framework is designed to ensure clear accountabilities, defined authorities and an efficient flow of information. Overall risk oversight is provided by the LLP Board.



The LLP Board

The Board of BlueBay Asset Management LLP (“the Board”) has responsibility for setting the risk management and internal control policies for BlueBay. It is responsible for reviewing the adequacy and effectiveness of the internal controls and risk management processes. In order to identify risks and potential control weaknesses the LLP Board draws upon the Group Risk Register which it reviews on a quarterly basis. In addition, to assist in these responsibilities the Board agrees an internal audit program with RBC Internal Audit Department to review the processes and controls in place. The Board also reviews the scope and nature of the external audits and reviews the findings.

The LLP Board fulfils this duty by means of direct intervention or by delegating appropriate responsibilities to the Management Committee.

The LLP Board is comprised of Non-Executive and Executive Board Members; including two Independent Non-Executive Board Members.

The Management Committee

The Management Committee is responsible for the execution of the business strategy and therefore bears responsibility for the identification, assessment and management of all Risk Categories through its day-to-day management and the implementation of effective management structures. The Members of the Management Committee collectively have direct responsibility for all functions within BlueBay and receive up to date reports on the issues and risks arising from the various departments through regular meetings with the department heads. The Management Committee additionally relies on the support of the Operating Committee and the Market Risk Committee to provide policy and oversight over the main areas of risks.

The Management Committee is chaired by the CEO and the Terms of Reference of the Management Committee details the membership.

Operating Committee

The purpose of the Operating Committee is to set policy and provide oversight over the following Risk Sources - Business Risks, Group's Financial Risks and Operational Risks, review the effectiveness of BlueBay's control environment and to enhance staff awareness of the risks and mitigating policies and procedures.

The Operating Committee is chaired by the COO-CRO and the Terms of Reference of the Operating Committee details the membership.

Market Risk Committee

The purpose of the Market Risk Committee is to set policy relating to BlueBay's Investment Risk Management framework and provide ongoing review and oversight of Investment Risk Source. Additionally, the Market Risk Committee establishes mandates and guidelines for BlueBay fund products as well as providing oversight over financial risks assumed by BlueBay.

The Market Risk Committee is chaired by the Head of Investment Risk and Performance - Attribution and the Terms of Reference of the Market Risk Committee detail the membership.

The cross-memberships within the Management Committee, Operating Committee and Market Risk Committee encourage and enable the flow of information across BlueBay. Taken together, these committees provide ongoing oversight over all risks faced by BlueBay.

Risk Monitoring

Risk management is the responsibility of all staff within each department performing various activities to ensure risks are effectively managed and mitigated.

BlueBay relies on three layers of controls, oversight and assurance (the "three lines of defence" model) for risk management and monitoring.

Embedded within the first line of defence are the processes and procedures implemented in each department, which are overseen by Business Managers. These vary depending on the specific function and include reviews, approval signoffs, maintenance of checklists/evidences and enforcement of BlueBay's policies.

The control functions set the framework for effective risk management and provide oversight and monitoring; and independent (internal and external) auditors assure the effectiveness of risk management, controls and governance. The control functions consist of Compliance, Legal and Governance, Risk and Performance, Technology and Operational Risk and HR functions.

The Compliance function undertakes a risk-based monitoring and testing programme to determine whether controls are operating effectively, and legal and regulatory requirements have been complied with. Monitoring activities are determined by a risk-based plan depending on the assessment of the regulatory risk in each area. As applicable, the Compliance function provides reports of its findings to the Board, the Management Committee, the Operating Committee and the Board of Directors of the funds managed by the firm.

BlueBay's Investment Risk and Performance Function along with the Technology and Operational Risk function are tasked with the independent monitoring of all risks, with a reporting line to the COO-CRO. On an annual basis, a formal review is undertaken of the risks facing the business and the controls that mitigate those risks. This risks and controls assessment are reviewed by the relevant Risk Owners and by the Board. This enables the reinforcement of risk culture throughout the organisation. The status of the risks is reported to the LLP Board periodically.

Additionally, departments such as Investment Control, Finance, Operations and Project Management Office also provide independent reviews and challenges as part of their day-to-day activities.

Incidents that may result in adverse reputational, financial or other outcomes for BlueBay are escalated to the Technology and Operational Risk function and recorded in the Operational Risk System. Incidents are addressed in accordance to the 'Incident Management Policy'.

Independent Verification

Independent verification of systems and controls is provided by Internal and External Audit. Internal Audit services are provided by RBC Group Internal Audit, who reports their findings to the Board and to the RBC Audit Committee responsible for subsidiary entities.

The Internal Audit program helps the Management Committee ensure that adequate systems of internal control are in place and it provides assurance to the Board and the RBC Audit Committee that the risks identified by BlueBay are being properly managed. The internal audit programme involves an annual audit of departments within BlueBay, with all departments audited at least every three years.

External audit services are provided by PwC, who are the reporting accountant for the Annual Report and Accounts and for the ISAE 3402 Assurance report on controls at a service organisation ("ISAE 3402"). The external auditor provides an independent opinion in the ISAE 3402 report on the design and effectiveness of the control environment for the Investment Management processes.

The external auditor also reviews BlueBay's systems and controls associated with preparation of its financial statements, on which clients may rely to assess BlueBay's financial strength, in its role as the external auditor.

Issues identified in audit reviews are agreed with the responsible manager and resolved within a given time frame. The Operating Committee monitors the status of open issues and ensures timely completion.

Risk Appetite Statement

BlueBay's risk tolerance is expressed through a Risk Appetite statement and defines the types and degree of risk that BlueBay is willing to accept in order to execute its business strategy. This RAS is used in the Group Risk Register and the Internal Capital Adequacy Assessment Process ("ICAAP") Report. The Group Risk Register and the ICAAP report are reviewed and approved annually by the LLP Board.

The Risk Appetite Statement provides practical guidance to key stakeholders about the level of acceptable risk for each Risk Category within the four Risk Sources (Business, Investment, Group Financial and Operational). It also determines the framework of controls and oversight required to ensure risk exposures remain within the acceptable levels.

The Risk Appetite of each Risk Category is monitored using a series of key risk measurements (metrics), internal events and risk & control findings to derive whether the risk category is within the defined

tolerance level (threshold) of the appetite statement. The status of the risk appetite for all the Risk Categories is regularly reviewed by the Operating Committee and quarterly by the LLP Board.

The Group is committed to the continual enhancement of its control environment and key indicators will evolve and refined over time as trends become apparent.

Note – the Risk Appetite statement for the reputational risk category within the Business Risk Source is aligned to RBC’s reputational risk framework

6. Ongoing review

The Pillar 3 disclosures will be reviewed in conjunction with the ICAAP Report. The LLP Board has granted the Chief Financial Officer, Craig Tennier, responsibility for the approval of the Pillar 3 disclosures and ICAAP Report. The Report and disclosures will be formally presented to the LLP Board and reviewed as part of the business planning cycle on an annual basis, unless the LLP Board is made aware of a major event before then requiring a complete review of BlueBay’s risks and capital position.

BlueBay intends to publicise updates to its Pillar 3 disclosures on its corporate website on an annual basis in conjunction with the publication of its Annual Report. BlueBay has not and is not required to have its Pillar 3 disclosures audited by the External Auditors.

7. Remuneration

Remuneration disclosures for BlueBay can be found on the firm’s website.

<http://www.bluebay.com/en/corporate-governance/>