Investment Funds Direct Limited

Pillar 3 ICAAP Disclosure

Period ending 31st December 2017

Disclaimer

This information has been prepared purely for the purpose of explaining the basis on which IFDL has prepared and disclosed certain capital requirements and information about the management of risks relating to those requirements and for no other purpose. It therefore does not constitute any form of financial statement on the Business nor does it constitute any form of contemporary or forward looking record or opinion of any of the Businesses.

1. Introduction and Regulatory Background

This disclosure document has been prepared by Investment Funds Direct Limited (IFDL), in accordance with the requirements of Part 8 of the EU Capital Requirements Regulation (CRR), Articles 431-451 as applicable. These implement the 'Pillar 3' disclosure requirements (see below) of the Fourth Capital Requirement Directive (CRD IV).

IFDL is regulated in the UK by the Financial Conduct Authority (FCA). It is subject to the FCA's Investment Firms' Prudential Sourcebook (IFPRU) and is a £125k Limited Licence Firm with permission to hold and/or control client money.

IFDL is a wholly owned subsidiary of Royal London Mutual Insurance Society Limited (RLMIS). Unless otherwise stated, all figures used are as at 31 December 2017, our financial year-end.

This disclosure document has been approved by the IFDL Executive Risk Committee (ERC), IFDL Board Risk Committee (BRC) and the IFDL Board based on the 2018 Internal Capital Adequacy Assessment Process (ICAAP) Report approved by the ERC, BRC and the IFDL Board; the process will not be externally audited, but is subject to the internal Royal London Group (RLG) governance procedures.

The CRD IV requirement is set out in three Pillars:

- Under **Pillar 1**, firms are required to calculate their minimum capital requirement based on credit, market and operational risk.
- Under **Pillar 2**, firms need to assess what additional capital is required for risks not covered in Pillar 1. Firms must develop sound risk management processes that accurately monitor, measure and aggregate their risks so that sound capital adequacy provision is made. This must be evidenced by an ongoing Internal Capital Adequacy Process (ICAAP) which must be formally reviewed and reported on at least annually. The FCA is required to review the ICAAP.
- The objective of **Pillar 3** is to improve market discipline through effective public disclosure of risk management policies and capital adequacy measures taken to meet the requirements of Pillars 1 and 2. This document meets IFDL's Pillar 3 disclosure requirements.

2. Scope of Application

IFDL is a wholly owned subsidiary of Royal London Mutual Insurance Society Limited (RLMIS). As a regulated entity, IFDL is obligated to hold capital on a standalone basis to the rest of the group.

3. Background to Investment Funds Direct Limited

IFDL was founded in 1982, and launched the first online fund supermarket in December 1999 under the trading name Fundsdirect. In 2004, a number of IFAs and a management team agreed to collaborate to create an independent wrap platform. This new proposition, which was founded in late 2004, acquired IFDL in 2005 and launched under the trading name Ascentric in 2006.

IFDL operates an investment administration platform providing services to a wide range of business streams within the UK retail finance sector. IFDL is regulated by the Financial Conduct Authority (FCA No.114432).

IFDL is a wholly owned subsidiary of Investment Funds Direct Group Limited (IFDGL). In November 2007, IFDGL was acquired by the Royal London Mutual Insurance Society (RLMIS).

4. Business Strategy

IFDL provides an online Wrap Platform, offering investment administration and consolidation services to financial advisers and large distributors and product providers. This technology gives customers a clearer picture of how their entire portfolio is performing, putting them in control of their investments through their financial adviser.

A number of wrappers are available on the IFDL Platform including General Investment Accounts, ISA's, Onshore Bond (provided by Scottish Friendly), SIPP's and Offshore Bonds provided by several partners. Investment vehicles include funds, stocks and shares, bonds, structured products and cash. IFDL is the product provider for the ISA and Ascentric SIPP.

IFDL's strategy follows two high level themes:

- The Ascentric branded platform targeted at independent holistic advisers, providing a high value service to high net worth clients; and
- IFDL's white label offering, providing large distributors and providers lower-cost access to the benefits of a self-branded platform and supporting operations.

5. Capital Requirements Regulation (CRR) disclosures

Articles 431 to 451 set out requirements for scope, policy and frequency of disclosure, the mandatory disclosure of some matters, and the disclosure of others only if they apply to the firm. The following disclosures do not recite those requirements which do not apply to IFDL.

6. Risk Management Objectives and Policies (Article 435)

6.1 Royal London Mutual Insurance Society (RLMIS) Governance

As a wholly owned subsidiary of RLMIS, IFDL adheres to the risk management objectives and policies set out for companies within the Royal London Group. The Financial Statements to the Report and Accounts for RLMIS detail the governance structure in place for the Royal London Group companies and the approach taken to risk management generally. This specifically covers the Royal London Group's management of the various categories of risk faced by the Group. This information can be found in the Report and Accounts for the Royal London Group and on the Corporate Governance section of the Royal London website at the following link Royal London

The responsibilities of the RLMIS Board include setting the Group's strategic aims, upon recommendation from the Chief Executive, which the leadership put into effect, supervising the management of the business and reporting to members on their stewardship. Good governance goes beyond compliance with statutes, rules and regulations, and is at the core of how RLMIS (the "Group") does business. In this regard, the RLMIS Board applies corporate governance to facilitate "effective, entrepreneurial and prudent management that can deliver the long term success of the company".

The RLMIS Board is committed to maintaining high standards of corporate governance and believes that a sound corporate governance framework enables efficient and effective decision making with clear responsibilities, which contribute to achieving the Groups objectives and delivering long-term value to members. RLMIS has a well-defined and structured corporate governance framework to support the RLMIS Board in delivering long-term value to members.

The RLMIS Board has delegated authority to Board Committees, with roles and delegated authority included in the committees' terms of reference, which also set out the specific membership requirements for each committee. The committee members are appointed by the RLMIS Board on the recommendation of the Nomination Committee, which has responsibility for reviewing the composition of the committees. The RLMIS Board Committees include the Audit Committee, the Board Risk Committee, the Independent Governance Committee, the Investment Committee, the Nomination Committee, the Remuneration Committee and the With-Profits Committee. Each committee has a terms of reference which provides more details on the duties of the committee.

The RLMIS Board consider that IFDL's risk management arrangements are adequate with regards to its risk profile and strategy.

6.2 Royal London Risk Management System

The Group operates a Risk Management System (RMS) which forms an integral part of the management and Board processes and decision making framework across the Group. This framework enables the Board to draw assurance that the risks to which the Group may be exposed are being appropriately identified and managed within risk appetite, and that risks that may present significant financial loss or damage to the Group's reputation are being minimised.

RLMIS has a robust policy framework in place which all group companies adhere to, policies include the Fit and Proper policy which sets out the management approach, the governance arrangements, the regulatory requirements and the minimum standards to be adhered to within the Group for managing and assessing the fitness and propriety of all persons running the business and its employees. The RLMIS Remuneration policy comes under the governance of the Group Remuneration Committee which approves all Group remuneration plans and awards.

6.3 IFDL Governance

IFDL is integral to the Royal London Group. It has a strong local governance structure appropriate to its status as an individually regulated entity. The governance structure continues to evolve as the business grows to ensure that both the Board and the Executive have appropriate oversight of the business as well as the ability to provide strategic direction.

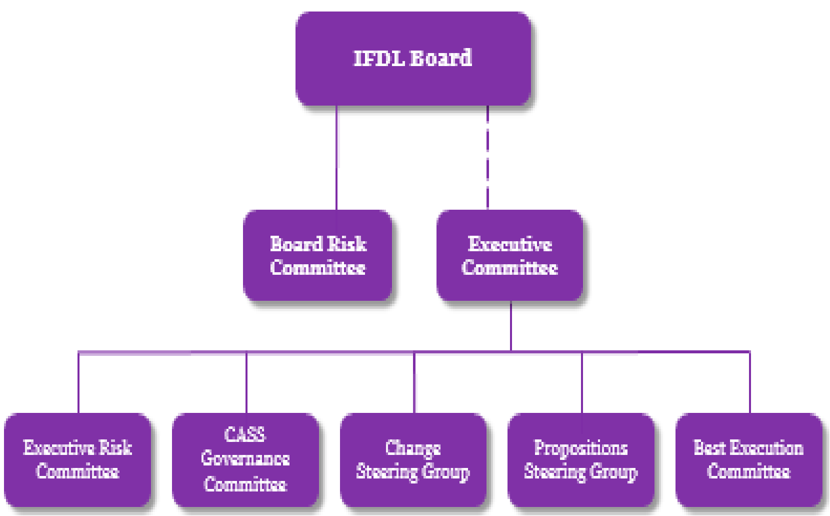
IFDL has fully adopted the Group's Risk Management System (RMS). All risks, controls and actions are captured on the risk management system Archer which is a market leading risk management tool used across the Group. Archer has improved the quality of IFDL's risk information enabling us to dedicate time to understanding and managing risks and focus on key risks and key controls. Components of the RMS such as the risk strategy, risk appetite and policies set out the objectives, direction, limits and tolerances within which the IFDL Board expects IFDL to operate. RMS enables the IFDL Board to draw assurance that the risks to which IFDL may be exposed are being appropriately identified and managed within risk appetite, and that risks that may present significant financial loss or damage to IFDL or the Group's reputation are being minimised. Strategies and processes are in place to manage key risks and senior management within IFDL continuously review and enhance the business control environment to make sure that key risks are managed in a comprehensive and robust manner.

The IFDL Board of Directors has responsibility for the overall strategy and risk governance and management of IFDL, with ultimate responsibility for defining the IFDL risk appetite, benchmarks, tolerances and controls. Systems of internal control are designed to ensure effective operations, including financial reporting, and compliance with laws and regulations. The IFDL Board is ultimately responsible for the continuing success of the company and must make a wide range of important decisions relating to risk and capital management. Royal London has robust policy and procedure documentation in place to govern the recruitment of executive personnel.

The IFDL Board includes three Directors and one independent Non-Executive Director. There is an independent chair of the IFDL Board and a non-executive chair of the BRC. Each of the Directors were appointed according to their industry knowledge and experience.

Significant risks with a potential impact on the business area's Medium Term Plan (MTP) are managed and reported to the IFDL Board and RLMIS Board appropriately. Senior management within IFDL are proactive in identifying risks and assessing the capital requirements of the organisation. The IFDL Board receives regular information on the IFDL risk and control framework to help it determine whether we are operating within our risk framework, and if we are not, what actions are in place to mitigate the risk.

6.4 IFDL Governance Committees (First Line of Defence)



Notes:

There are steering committees in place for each change programme, the most notable of which is the Accelerator Steering Committee.
A meeting of business-wide Risk Champions takes place each month supporting the execution of the Risk Management System.

All governance committees meet at least bi-monthly. There is wider Royal London Group attendance at the IFDL Board and BRC. There is an independent chair of the IFDL Board and a non-executive chair of the BRC.

The IFDL Head of Risk and Technical chairs the IFDL Executive Risk Committee (ERC) and attends the IFDL BRC. The Head of Risk and Technical prepares a report for the BRC that summarises the current state of the IFDL risk profile and includes any matters for escalation and noting from the IFDL ERC. A summary of key issues from the underlying IFDL Committees is escalated to the Executive Management Committee (EMC) monthly.

6.5 IFDL Second and Third Lines of Defence

IFDL has a focused second line and third of defence who provide strong independent advice, challenge and oversight of the business, providing assurance to the IFDL and RLMIS Boards.

Royal London group risk assurance is provided by the Royal London Group Risk & Compliance (GR&C) team. GR&C works closely with the IFDL first line Risk team providing support and guidance as well as a risk communication and escalation routes to and from senior management in the Royal London Group. Representatives from GR&C attend the IFDL ERC and BRC.

RLG Internal Audit, our third line of defence, exists to help and support the Board and the Group Executive Committee, to protect the assets, reputation and sustainability of Royal London. The Internal Audit team provides independent assurance to the IFDL Board that the IFDL's risk management, governance and internal control processes are operating effectively. A member of Internal Audit attends the IFDL ERC and BRC.

6.6 ICAAP

The ICAAP is an intrinsic component of the overall governance framework within IFDL, involving significant integration between both the Risk and Finance functions and the involvement of IFDL management.

The ICAAP is regularly reviewed by the Executive Risk Committee (ERC), the IFDL Board Risk Committee (BRC) and the IFDL Board and is considered as part of the annual business planning cycle. Should business plans or significant re-positioning dictate, interim reviews will be undertaken. Management information (MI) allows the ERC and the BRC and IFDL Board to regularly monitor IFDL's business against the ICAAP framework and to make adjustments when necessary. The ICAAP has its own steering committee which exists to ensure that the ICAAP process is firmly embedded within the business. Any material issues raised at the steering committee will be escalated to the ERC, BRC and the IFDL Board.

6.7 Own Funds (Article 437)

IFDL statutory accounts for the year end 31st December 2017 included the following amounts in respect of Capital and Reserves:

Capital and reserves	**2017 (£m)**
Called up share capital	**59**
Share premium account	**0.016**
Other reserves	**67.5**
Profit and loss account	**(88.3)**
Total shareholders' funds	**38.1**

The statutory accounts can be reconciled to the capital resources reported within IFDL's FCA regulatory returns which categorise the capital and reserves into Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments. This categorisation is presented in the table below.

Tier	**Element**	**Capital £m**
CET1[1]	Eligible LLP Member/Eligible Partner/Ordinary Share Capital	126.5
	Share Premium Account	0.016
	Audited Reserves	-88.3
	Total CET1	38.1
Deductions	Intangible Assets	0
	Net Resources after deductions	38.1
	Total Capital	**38.1**

6.8 Capital Requirements (Article 438)

IFDL's ICAAP process involves an assessment of the adequacy of its internal capital to support current and future business activities. Adequacy in this sense is measured in terms of actual

[1] Common Equity Tier 1 Capital

capital held against capital requirements as dictated by the EU Capital Requirements Directive (CRD) and the FCA Handbook (specifically IFPRU) and entails an analysis of capital against two pillars.

In order to calculate IFDL's overall capital requirement, IFDL must consider whether the Pillar 1 capital requirement is sufficient to cover the risks to which the organisation is exposed. The analysis of these risks is carried out under the FCA's Individual Capital Adequacy Assessment Process (ICAAP) and includes an assessment of Pillar 2 risks. IFDL's Pillar 2 risk analysis includes a review of all risk types set out by the FCA.

6.9 Exposure to Counterparty Credit Risk (Article 439)

This article is not relevant for IFDL.

6.10 Capital Buffers (Article 440)

This article is not relevant for IFDL.

6.11 Indicators of Global Systemic Importance (Article 441)

This article is not relevant for IFDL.

6.12 Credit Risk Adjustments (Article 442)

Credit risk is defined as the loss resulting from a counterparty's failure to repay amounts in full when due. IFDL's key credit risk exposure is linked to the type and quality of assets defined within its calculation of its Own Funds requirement in accordance with the EU's Capital Requirements Regulation (CRR).

6.13 Exposure to Market Risk (Article 445)

IFDL has limited exposure to market risk, it does not have a trading book and it has negligible assets and liabilities in foreign currencies.

6.14 Operational Risk (Article 446)

IFDL is not subject to an operational risk capital requirement under Pillar 1.

6.15 Exposures in Equities not included in the trading book (Article 447)

IFDL has no exposure to equities not included in the trading book.

6.16 Exposures to interest rate risk on positions not included in the trading book (Article 448)

IFDL has limited exposure to interest rate fluctuations.

6.17 Exposure to securitisation positions (Article 449)

IFDL has no exposure to securitisation positions.

7. Remuneration Policy (Article 450)

Within the Royal London Group, there are a number of investment firms, including IFDL, who are authorised and regulated by the Financial Conduct Authority (FCA) and need to comply with the requirements of the FCA Remuneration Code (the Code), and as required by the Capital Requirements Directive IV (CRD IV). The remuneration policy of IFDL is under the overall control of RLG. Royal London's remuneration policy has four main aims:

- To align executives interests with those of Royal London's members and customers;
- To support the delivery of the Group strategy, whilst ensuing adherence to the Group's risk appetite;
- To ensure remuneration is competitive to help to attract and retain talent; and
- To ensure fair outcomes for our people, members and policyholders.

Royal London has developed its remuneration policies, practices and procedures for these entities to comply with the requirements of the Code, CRD IV and all other applicable regulatory requirements.

7.1 Decision making process for remuneration

Royal London has a Remuneration Committee made up of Non-executive Directors and advised by independent remuneration consultants. The Committee has overall responsibility for remuneration policy across the Group companies. The Committee's primary role is to ensure that the Group's pay structures are in line with the Key Remuneration Principles.

The Remuneration Committee will receive regular updates from the Chief Risk Officer including an annual report that details how effective Royal London (and its subsidiaries) has been in managing risk within the Group's stated risk profile.

Information on the remuneration policy, the link between pay and performance, and quantitative information can be found on the RLG Corporate Governance internet pages.

http://www.royallondon.com/about/corporategovernance/remuneration/

8. Notices

This Disclosure is based on IFDL's ICAAP review for 2018 and is subject to review and update at least annually. The information contained in this disclosure has not been externally audited.