Capital Requirements Directive
Pillar 3 Disclosure

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1. Introduction

The Capital Requirements Directive (the 'Directive') of the European Union created a revised regulatory capital framework based on the provisions of the Basel 2 Capital Accord.

In the United Kingdom, the Directive was implemented through changes to the Financial Conduct Authority ('FCA') Handbook of Rules and Guidance, and in particular its General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU', specifically BIPRU 11). ECM Asset Management Limited ("ECM") is authorised and regulated by the FCA and is required to make the disclosures contained in this document.

The regulatory capital framework consists of three Pillars:

- Pillar 1 sets out the minimum capital requirements that we are required to meet for credit, market and operational risk;
- Pillar 2 requires us, and the FCA, to take a view on whether we must hold additional capital against capital risks not covered by Pillar 1; and
- Pillar 3 requires us to publish certain disclosures about our underlying risks, capital and risk management process.

The rules in BIPRU 11 require us to publish these disclosures in an appropriate medium and location. ECM's Pillar 3 disclosures are made annually, and are available on our website.

ECM has implemented the recent changes required under the capital requirements framework and reporting that was introduced as part of the CRR (Capital Requirements Regulation)/CRD(Capital Requirements Directive) IV legislation. The requirements have introduced an increased reporting burden for ECM. ECM is authorised as a limited licence firm by the FCA, the practical and operational impacts have been relatively minor with the capital framework for the firm relatively unchanged and the firm being exempt from the framework imposed under the liquidity regime. ECM will continue to monitor and adapt to any further requirements imposed under this framework.

The FCA permits firms to omit one or more required disclosures if the firm believes the information is not material, or is regarded as proprietary (publication of which would undermine our competitive position) or confidential (such as in the case of binding obligations to customers or counterparties). If we have omitted information for these reasons then we have explained this.

2. Scope and Application of Directive Requirements

The disclosures in this document are made in respect of ECM which is authorised and regulated by the FCA as a BIPRU Limited Licence €50k firm and it is not permitted to hold client money. ECM specialises in the management of portfolios comprising mainly European fixed income securities. The firm only deals with institutional investors.

ECM is a direct subsidiary of ECM Holdings Limited and an indirect subsidiary of Evergreen Holdings BV, a Dutch-incorporated company. These three entities form the UK Consolidation group. Its ultimate parent company is Wells Fargo & Company, a US based bank.

Consolidated regulatory returns are submitted quarterly to the FCA, and the capital surplus position is frequently monitored. Recent capital injections have ensured a significant capital surplus. ECM is the only regulated entity within the UK Consolidation group, and therefore disclosures in this document relate only to ECM.

As a limited licence firm, ECM's Pillar I capital resources are required to be the higher of: its base capital requirement of €50k, its Fixed Overhead Requirement and the sum of its credit and market risk requirements.

During 2010, ECM received an ARROW review from the FCA. As a result of this, the FCA gave ECM Individual Capital Guidance ('ICG') which resulted in a capital requirement higher than the above. The relevant amounts and quantification of our capital surplus are set out in section 5.

ECM is subject to the principles and guidance of the UK Remuneration Code introduced by the FCA in January 2011. ECM has determined to implement this regime through the UK Remuneration Policy and all employees of ECM are therefore subject to the terms and conditions of this policy. Wells Fargo in the US has developed an Incentive Compensation Risk Management Policy and associated corporate standards and practices; the UK Remuneration Policy and standards supplement these and take account of any specific requirements of the UK Remuneration Code.

The fundamental philosophy of Wells Fargo's approach to remuneration is to reward performance over the long-term and across multiple dimensions, align employee interests with long-term shareholder interests and at the same time promote a culture of risk management where remuneration reinforces Wells Fargo's prudent approach to calculated risk and does not encourage risk taking that could exceed the accepted level of tolerated risk.

Remuneration for ECM employees will generally include an element of fixed cash remuneration and variable remuneration in the form of cash, deferred cash and Wells Fargo equity. The risk adjusted features of the variable remuneration will be detailed in the relevant plans and will include a combination of knock outs linked to the individual's compliance with internal policies and applicable compliance and risk management accountabilities, maximum payout limits, extended performance measurement periods, deferrals and clawbacks.

Further details of the above can be found on Wells Fargo Website in the UK Remuneration Policy section together with a summary of the principles on which the ECM remuneration arrangements are based. These include the long term wellbeing of ECM and the fact that total variable remuneration should not limit the ability of ECM to strengthen its capital base. Guaranteed variable remuneration is exceptional and only occurs when hiring new staff and is limited to the first year of employment.

All ECM identified code staff will also be subject to the relevant deferral requirements under the UK Remuneration Code including a performance adjustment (Malus) to the variable remuneration where the payment is no longer sustainable based on the performance of the individual or the firm. 'Malus' will include instances of employee misbehaviour or material error; a material downturn in the financial performance of ECM or a material failure of risk management.

3. Risk Management Objectives and Policy

The board is responsible for approving ECM's risk strategy, establishing its risk appetite and establishing that all key risks are effectively managed and controlled.

ECM's Risk Management Committee, has been replaced by an investment risk governance structure. The firm's full time Risk Manager reports to the Head of Fixed Income Investment Risk for Wells Capital Management. Wells Capital Investment Risk reports to Wells Capital Management's CIO. Formal risk meetings with senior management occur on a monthly and quarterly basis.

ECM manages its business strategy, the services it provides to its clients and the associated risks in accordance with a risk management framework that takes into account relevant standards, laws and regulations, including the regulations and principles of the FCA.

ECM's risk policies and procedures are overseen by Wells Fargo Risk Management Committee. The committee meets every two weeks, and on an ad hoc basis should particular risk-related issues arise.

ECM is fully integrated into the Wells Compliance and Operational Risk structure whereby risk professionals employed by the parent conduct on-site visits, participate in meetings, provide guidance and support as needed. Additionally ECM benefits from the input of Wells Fargo London based risk professionals that provide additional oversight and input from an EMEA perspective, incorporating a consolidated view of risk over the entire Wells UK platform.

ECM is subject to Wells Fargo internal audit, the last audit that took place was Q4 2014. ECM's investment process is designed to be rigorous, and to provide a well-controlled, process driven decision making environment.

ECM's research team produces proprietary fundamental credit research including relative value and technical analysis. One of the major objectives of the investment team is to avoid underperforming sectors and defaults. A monthly sector review meeting is held to discuss key themes. The sector review meeting will utilise a sector matrix and SWOT analysis and has an emphasis on best ideas and picks.

Portfolio construction is managed by Lead Portfolio Managers who combine ECM's investment strategy view with fundamental research to calibrate individual portfolios. A peer review process ensures consistency of the investment process and provides for regular monitoring and feedback across the investment team. ECM's master model portfolio and Risk Dashboard are used as key reference points during the portfolio construction and peer review process.

4. Key Risk Analysis

ECM is a fund manager of modest size, with exposure to Operational Risk. There are additional small exposures to Credit and Market risk. All of these exposures are considered to be typical for a business of ECM's size and nature.
Detailed below are those factors that ECM considers to be material risks and therefore material information for the purpose of this document. ECM considers any other risks to be immaterial.

4.1 Operational Risk

Operational risk is defined as the risk of loss to the firm resulting from inadequacies or failures in internal processes, people and systems, or from external events. It includes legal and financial crime risks, but does not include strategic, reputational and business risks. ECM deals in some specialised and relatively complex instruments and trading activities. This gives rise to the risk of errors relating to trading or adherence to client mandates.

In general, ECM seeks to mitigate operational risk by implementing a strong control environment and managing risk proactively.

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The effectiveness of ECM's systems and controls is evidenced by the low incidence of operational errors and losses. There have been relatively few immaterial instances of an operational error resulting in a loss to the firm in recent years. Whenever errors or losses arise, the firm investigates the circumstances to identify what occurred, what remedial action is necessary, whether compensation or notification is required and to see if changes in systems or processes are necessary to prevent a recurrence.

ECM forms part of the broader Wells Fargo Capital Management Group, and the Wells Fargo Asset Management Group, and is closely integrated within the EMEA region, with support from other EMEA Group functions. This provides support for ECM in the event of key man risk with a breadth of team members around the group with detailed knowledge about ECM and who are familiar with its operations.

4.2 Business Risk

Business risk is defined as the risk to the firm arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy.

The Board considers this to be a material risk for the firm and has therefore always taken extensive measures to minimise it. The Board believes that superior investment performance is the key factor in sustaining and growing assets under management and income, therefore this is very closely monitored and managed.

4.3 Market Risk

Market risk is the risk of any impact on the firm's financial condition due to adverse market movements caused by market variables such as interest rates, prices etc. Changes in economic conditions in European countries, fluctuations in the Euro exchange rate and to a lesser extent, the rest of the world have an impact on ECM's business. ECM does not manage portfolios for its own account.

The fee income of ECM is spread across a range of currencies, Euro, USD, GBP. Market risk is therefore limited to the currency exposure in respect of fee debtors. As management fees are overwhelmingly collected monthly in cash and converted to GBP, there is no material accumulated exposure to currency risk against debtors. Additionally, ECM have a number of large suppliers that invoice in non GBP currency that acts as a natural hedge against currency fluctuations that might impact currency.

The income that the firm generates is directly related to the value of the firm's AUM and investment management performance. Changes in economic conditions in European countries and the rest of the world have an impact on business and this has been addressed under business risk.

4.4 Credit Risk

Credit risk is the risk that unexpected losses may arise as a result of the firm's creditors failing to meet their obligations to pay.

ECM has no material exposure to this risk category as fees are invoiced monthly and paid directly by clients. Independent administrators monitor collection and payment of these fees on a monthly basis, and they are levied upon the programmes that ECM manages. Most of fees receivable by ECM are payable in advance and the firm has very limited exposure to fee debtors at any point in time.

As part of assessing credit risk, management has assessed the exposure the company has to concentration risk. No calculation for concentration risk is calculated under Pillar 1 as the company does not provide loans or credit facilities to its clients.

ECM has an exposure to two banks through holdings of its cash deposits, HSBC and Wells Fargo. HSBC has been ECM's corporate banker since the firm was founded in 1999 and there is a strong relationship between the entities. Wells Fargo and HSBC are amongst the largest in the world and both are regulated by the FCA. As at 31st December 2015 ECM had liquid cash reserves in excess of £34.2m.

4.5 Liquidity Risk

Liquidity risk is the risk that the firm will be unable to meet its financial obligations as they fall due as assets held cannot be realised.
Although profitability and AUM have fallen in recent years, ECM remains well capitalised, with significant cash reserves, which could be utilised if required in the case of a liquidity issue. Significant claims risks are insured, and ECM has more than sufficient cash and capital to facilitate an orderly wind-down in the business without any recourse to external or related parties for support, as documented in its ICAAP.

4.6 Other Risks

ECM has considered other risks including Interest Rate, Insurance, Securitisation and Residual Risks. ECM is of the view that none of these risks are material for the firm. Pension risk is not relevant as ECM operates a single 'Defined Contribution 'scheme for all staff and directors, with no other pension liabilities. ECM has appointed Friends Life, now part of Aviva, the 5th largest life and Pensions Company ranked by UK market capitalisation as its pension provider effective 1st April 2013.

5. Capital Resources

The value of share capital and reserves was £34m as at December 2015, including the unaudited profits from that year. ECM's capital resources comprise of core Tier 1 capital only and therefore there are no other items or deductions.

ECM's 2016 capital requirement is Fixed Overhead Requirement of £6.4m (£5.9m multiplied by 125%), plus an additional "Capital Planning" requirement of £0.5m totalling £6.4m.

Capital Requirement	**£'000**
Fixed Overhead Requirement x 125%	5,860
Additional "Capital Planning" requirement	500
Total Capital Requirement	**6,360**

At the date of its last regulatory submission to the FCA, ECM had Tier 1 capital of £34.2m. ECM has a current regulatory capital surplus of £29.1m. There are no tiers of capital other than tier 1, and no deductions. ECM's Tier 1 capital is made up entirely of audited reserves and permanent share capital, deducting material current year losses should they arise.

ECM has no planned substantial capital expenditure commitments in the foreseeable future. Should there be any future capital requirements, they would be met initially from existing reserves. The availability of cash ensures that ECM currently has no significant liquidity concerns, as documented within ECM's Liquidity Policy paper and in the FCA regulatory return on this issue (form FCA055).

6. Future Sources of Capital

. The firm has substantial cash assets in the form of unencumbered cash on call deposits with HSBC and Wells Fargo and no scenario is envisaged that would require parental support, or loans from bankers at this point.

Future sources of capital if required, would be sourced internally, with no need for any recourse to non-group companies.

7. Ongoing Review

ECM's Pillar 3 disclosures will be updated in line with the firm's ICAAP document at least annually. The ICAAP, Liquidity Policy and Pillar 3 document will be presented to the Board at least annually, more frequently if there is a material change in circumstances. Wells Fargo EMEA risk committee, as well as ECM Compliance and ECM Finance department heads review risks, capital requirements, and the relevance of our ICAAP and Pillar 3 on a regular basis.

This Pillar 3 document is available on request. It is also available on the firm's website.

Jonathan Hill
Chief Financial Officer