WISE FUNDS

Pillar 3 and Remuneration Code Disclosure

Financial data based on audited accounts for year ended 31 December 2020;
Pillar 3 Disclosures based on ICAAP approved by the Board on 25 November 2021

Pillar 3 Disclosure

Introduction

The FCA framework for capital requirements comprises three Pillars:

- Pillar 1 sets out a firm's minimum capital requirement.
- Pillar 2 requires a firm to prepare an Internal Capital Adequacy Assessment Process ('ICAAP') document to assess whether additional capital is required to meet the risks it faces.
- Pillar 3 requires public disclosure of specified information about a firm's capital position and the firm's underlying risk management controls[1].

The Pillar 3 disclosure rules are set out in Chapter 11 of the FCA's BIPRU sourcebook.

Wise Funds publishes its Pillar 3 disclosure annually on its website (www.wise-funds.co.uk), Figures in this document are based on the audited accounts for the financial year ended 31 December 2020 and the ICAAP document approved by the Wise Funds Board on 25 November 2021, and are prepared on an individual company basis.

Wise Funds acts as the Investment Manager for sub-funds of a UK UCITS OEIC (the TB Wise Funds ICVC). A multi-asset strategy is followed. Wise Funds does not deal on its own account, rather it acts as Investment Manager to authorised/regulated funds which are operated by third parties. For the period covered by this disclosure, Wise Funds was categorised as a BIPRU Limited Licence firm by the FCA meaning that the Base Capital Requirement was €50,000.

Risk management objectives and policies

The Wise Funds Board determines the business strategy and risk appetite for the Firm and is the governing body ultimately responsible for the Firm's risk management framework.

The Board is responsible for ensuring an appropriate governance regime is in place, including ensuring effective processes are in place to identify, monitor, report and manage the risks that the Firm is, or may be, exposed to. The Board meets bi-annually.

A quarterly risk and compliance report is also produced.

[1] Information need not be disclosed if it is not regarded as material or if it is regarded as proprietary or confidential.

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Wise Funds maintains a risk register which identifies key risks and controls. Risks are assessed in terms of the probability of the risk occurring and likely impact. Mitigation steps (e.g. controls, processes, insurance) are taken to reduce the probability of risks crystallising and/ or any impact arising. The risk register is then used to measure and monitor risks on an ongoing basis. Management Information is also produced to ensure key risks can be monitored.

Risk management activity is focused on reducing operational risk to an acceptable level and also maintaining sufficient capital to allow an adequate buffer against risks crystallising, as identified in 'Pillar 2' of the company's ICAAP.

Material Risks

- Market Risk; Credit Risk – Wise Funds does not trade on its own account and income is generated from the investment products that it manages, so Market Risk and Credit Risk are both assessed as low. Although we don't have positions in the market as such, we recognise that fluctuations in the market value of funds under management will affect our income and we have performed stress tests accordingly in the ICAAP. We review credit risk exposures reporting as part of our Pillar 1 calculation

- Interest Rate Risk – Wise Funds does not have any borrowings so Interest Rate Risk is assessed as low.

- Counterparty Risk – Wise Funds does not have counterparty risk. We review credit risk exposures reporting as part of our Pillar 1 calculation.

- Liquidity Risk - A Liquidity Risk Management Framework is in place to ensure that liquidity is sufficient to enable liabilities to be met as they fall due. Due to the level of cash balances and the nature of the business model, liquidity risk is assessed as low.

- Business Risk – This relates to being able to generate fee income and control costs on an ongoing basis in line with business plans. The risk is assessed and mitigated as part of the ICAAP process.

- Operational Risk – This is the risk that losses could be sustained through inadequate or failed internal processes, people or systems. As outlined above, the risk register is designed to assist in capturing all material operational risks and identify mitigating factors (e.g. existing controls) and action points.

  Operational risks include the detrimental effects of:

  - Risk associated with falling income (as the firm is remunerated on a percentage-of-assets basis);
  - Failure of processes;
  - Dealing risks;
  - IT systems failure;
  - Third party administration risk;

- Theft, fraud and litigation;
- Departure of key staff;
- Reputational damage from mis-managing investment mandates;
- Client concentration risk;
- Regulatory/compliance failings.
- Fire, adverse weather and acts of God;

These risks are reduced by operating relevant policies and procedures. These are designed to be both preventative and to provide oversight information to the board/managers to act on accordingly.

ICAAP

Wise Funds is required to prepare an internal assessment of its capital adequacy, referred to as an ICAAP. The main purpose of the ICAAP is to set out how Wise Funds manages its risks, what the key risks are and how the Firm has satisfied itself that it has sufficient capital in respect of those risks. The ICAAP documents both the Pillar 1 (minimum capital) requirement and also the Pillar 2 requirement.

The Pillar 2 requirement includes an estimate of the amount of capital that should be held against material operational risks. A series of stress tests are also modelled to help assess whether Wise Funds is adequately capitalised to withstand a range of adverse circumstances and scenarios. The Firm also models a wind-down scenario in order to demonstrate that sufficient capital is maintained to ensure that such a wind down can be conducted in an orderly manner.

The process involves a degree of judgment. The total capital assessed as being required is compared to the 'Pillar 1' approach, with the larger of the two figures being used as to determine whether current capital resources are adequate.

Capital resources

As at 31 December 2020, Wise Funds was a BIPRU €50k firm. Wise Funds is required to hold a minimum level of capital at all times. This is called the Pillar 1 requirement and is the higher of the following numbers:

	Value at 31 December 2020 £k
Base capital requirement of EUR 50,000	45
Sum of Market Risk and Credit Risk requirement*	23
Fixed overheads requirement	**171**

The fixed overheads requirement is higher than either the base capital requirement or sum of the market & credit risk requirements. Accordingly, the Firm's Pillar 1 requirement is **£171k.**

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*The Market Risk requirement is zero. For the Pillar 1 Regulatory Capital Calculation of Credit Risk, the firm has adopted the Standardised approach (BIPRU 3.4) and the Simplified method of calculating risk weights (BIPRU 3.5). The Credit Risk requirement is calculated as below:

	Rule	Exposure (£k)	Risk Weight	Risk weighted exposure amount (£k)
National Government Bodies	BIPRU 3.4.2R	£0	0%	£0
Retail Exposures	BIPRU 3.2.10R	£0	75%	£0
Cash - Banks short-term	BIPRU 3.4.38R	£1,037	20%	£207
Exposure to Trade Debtors	BIPRU 3.4.53R	£80	75%	£60
Prepayments	BIPRU 3.4.128R	£13	100%	£13
Corporation Tax	BIPRU 3.4.22R	£0	100%	£0
Past due item	BIPRU 3.4.96R	£0	100%	£0
Fixed assets	BIPRU 3.4.127R	£10	100%	£10
Total				£291

Credit Risk Capital Component	8% of risk weighted exposure total	**£23k**

In addition to the minimum level of Pillar 1 capital, the Firm must hold sufficient additional capital as necessary based on the risks faced by the business as determined by the ICAAP (Pillar 2 capital). Wise Funds has determined that an adjustment to the Pillar 1 capital requirement is required as a result of the ICAAP, as the Pillar 2 requirement is £173k higher than the Pillar 1 requirement.

The minimum capital required is therefore assessed as being **£344k.**

At 31st December 2020 Wise Funds had Tier 1 capital resources of £1,088k. Tier 1 Capital is made up of Permanent Share Capital and Audited Reserves, less intangible assets. It had no Tier 2 or Tier 3 capital.

	Value at 31 December 2020 £k
Share capital	0
Audited reserves	1,092
Less – intangible assets	(4)
Tier 1 capital	**1,088**

Wise Funds therefore has capital of £917k in excess of the minimum, or a ratio of 316%.

	Value at 31 December 2020 £k
Regulatory Capital (all Tier 1)	1,088
Capital requirement	344
Capital Surplus	**744**

This is deemed to be an adequate level of capital to satisfy the regulatory capital requirements and to support current and future activities.

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Remuneration Code Disclosure

Wise Funds is a BIPRU firm and is therefore subject to the BIPRU Remuneration Code. The Firm has policies and practices for those staff whose professional activities have a material impact on its risk profile (‘Code Staff’).

Wise Funds’ remuneration policy is in line with its business strategy and long-term corporate values. It seeks to avoid conflicts with the duty to act in the best interests of clients and aims to promote effective risk management.

The following disclosures are made in accordance with the regulatory requirements:

1. Decision making process for remuneration

The Remuneration Committee oversees the setting and review of remuneration levels (basic pay and bonus) for Wise Funds as a whole. Remuneration is set with reference to market rates following an annual benchmarking exercise and is set within the context of an operating plan which ensures any threats to capital adequacy, liquidity and solvency caused by excessive remuneration would be identified.

2. Link between pay and performance

Base pay is set prior to the start of the calendar year by reference to market rates following an annual benchmarking exercise and factors in the level of seniority and performance of the individual. Basic pay is set at a sufficient level to allow for flexibility in awarding (or not awarding) an annual bonus.

Bonus levels are calculated later in the year once the performance of individuals and the company is known. There are no guaranteed bonuses and bonus payments may be zero (for example if the company is not profitable). The Remuneration Committee has the ability to adjust the bonus pool and individual payments.

The bonus scheme is operated to allow for meaningful rewards to be paid to staff whose performance during the year merits recognition, but within the context of an annual operating plan. All bonus amounts are discretionary and linked to company profitability and performance and staff performance against agreed objectives. The staff appraisal process takes into account a range of factors including the individual's performance and their broader contribution to the business, including a range of non-financial measures. The individual’s conduct and ongoing fit and proper status are considered as part of the process.

All eligible staff are also entitled to distribution of company-wide profits under the firm’s employee ownership scheme, with all staff receiving the same % of salary.

3. Required statistics under the Code

The total amount of remuneration for the year ended 31 December 2020 was £507k and the average number of employees was 6.

Wise Funds is also required to disclose key quantitative information for staff whose professional activities have a material impact on the firm's risk profile ('Code staff'). These staff members are defined by the firm as Senior Managers or Certified Staff under the FCA's Senior Managers & Certification Regime.

The remuneration for Code staff was as follows for the year ended 31 December 2020:

	Total £k
Fixed remuneration	432,228
Variable remuneration	0
Total remuneration	432,228
Number of beneficiaries	**6**

For the year ended 31 December 2020 all remuneration was in cash and no remuneration was deferred. There were no sign-on or severance payments made during the financial year.