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1. Introduction

a. Purpose and Regulatory Framework

The EU Capital Requirements Regulation (“CRR”) and the Capital Requirements Directive (“CRD”) referred to collectively as CRD IV creates a revised regulatory capital framework across Europe. The Financial Conduct Authority (“FCA”) is responsible for the implementation of the requirements of CRD IV in the UK and the details are covered in the FCA handbook. The rules in the PRA and FCA Prudential sourcebook for Investment Firms (“IFPRU”) set out the provision of disclosure outlined in Part 8 of the CRR.

The purpose of Pillar 3 disclosure is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm’s capital, risk exposure and risk assessment process: this document is designed to meet the Pillar 3 disclosure obligations for True Potential Investments LLP (“TPI” or “the Firm”). In accordance with Article 432 of the CRR certain disclosures not regarded as material and those regarded as proprietary or confidential may be omitted from this document with more general information on the subject matter published in its place.

True Potential Investments LLP is an IFPRU €125k firm and must at all times maintain overall financial resources and internal capital, including own funds and liquidity resources which are adequate both as to amount and quality to ensure there is no significant risk that its liabilities cannot be met as they fall due. TPI is considered a Significant IFPRU Firm as the assets belonging to clients held in the course of, or connected with, regulated activities exceeded £7.8 billion for the first time in this period.

The capital adequacy framework consists of three pillars:

- **Pillar 1** sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk;
- **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. This comprises firms’ Internal Capital Adequacy Assessment Process (“ICAAP”) and a supervisory review and evaluation process (“SREP”), conducted by the FCA;
- **Pillar 3** requires firms to publish certain details of their capital, risks and risk management process, as with this disclosure for TPI.

The ICAAP includes an assessment of the material risks faced by TPI and the controls in place to identify, manage and mitigate these risks. The risks identified are stress tested against various scenarios to determine the level of capital that TPI need to hold. Where risks can be mitigated by capital, the company has adopted the CRD IV reporting requirements for Pillar 1. Should the TPI Board consider that the Pillar 1 calculations do not adequately reflect the risk following assessments, additional capital is added to the Pillar 2 requirement. The ICAAP is formally reviewed at least annually by the Risk Committee and the TPI Board. The Finance department regularly monitor the liquidity position for capital adequacy and any material deviations are reported to the Risk Committee and the TPI Board.
b. True Potential Background

True Potential was launched in 2007 with the aim of revolutionising wealth management and helping people do more with their money. To achieve this, we built a fully-integrated firm which provides a wealth platform, a pension scheme and investment management services to a wide range of customers.

Our flagship investment product is our range of True Potential Portfolios, which have grown to over £7.8 billion in less than five years. Unique in the market, our fully-managed Portfolios bring together the expertise of over 12,000 investment professionals in 250 locations around the world. We provide this innovative discretionary fund management service at no additional cost to our clients, helping to reduce the overall cost of investment.

Our mission to lower costs helps our clients keep more of their capital in the markets and do more with their money.

Since March 2015 TPI have launched a range of 34 multi-asset UK authorised funds, with an invested value at the end of 2019 of over £8.6 billion.

As of 31 December 2019, the value of assets under administration on the True Potential Wealth Platform amounted to over £10.4 billion.

c. Group Structure

True Potential Investments LLP is a UK limited liability partnership (company reference: OC356027) with its Head Office at Gateway West, Newburn Riverside, Newcastle upon Tyne, NE15 8NX. TPI is part of the True Potential Group of companies (the “Group” or “True Potential”) as set out as below:

True Potential Wealth Management LLP (“TPWM”) is an Article 3 MiFID exempt firm, all other subsidiaries are not regulated firms.
Designated Members

As at 31\textsuperscript{st} December 2019 for the members of the TPI management body the number of additional directorships held are as below:

<table>
<thead>
<tr>
<th>Designated Member</th>
<th>Role</th>
<th>Directorships Outside the Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mark Henderson</td>
<td>Managing Partner, True Potential Investments</td>
<td>0</td>
</tr>
<tr>
<td>Neil Andrew Johnson</td>
<td>Managing Partner, True Potential Investments</td>
<td>1</td>
</tr>
</tbody>
</table>

d. Means and Frequency of disclosure

This document is made public and is available on the TPI website (https://www.tpinvestor.com/).

Copies may also be requested by writing to:

True Potential Investments LLP Head Office
Gateway West, Newburn Riverside Newcastle upon Tyne
NE15 8NX.

This disclosure is made at least annually and is published in accordance with the Firm’s Annual Report and financial statements. TPI have assessed the need to publish the disclosure on a more frequent basis, and in doing so have considered the scale of operations and range of activities.

2. Risk management

The risk management framework in True Potential Investments forms an integral part of the management and decision-making in the firm. Key elements of the risk management framework comprise:

- Governance and oversight;
- Risk Management Policy;
- Procedures to identify, measure, monitor and report risks across the business; and,
- Risk appetite statements.

a. Governance

The True Potential Investments Board

The True Potential Investments Board (“TPI Board”) has responsibility for setting the risk management and internal controls for TPI. It is responsible for reviewing the adequacy and effectiveness of the internal controls and risk management process. To identify risks and potential
control weaknesses the TPI Board draws upon the risk register, which documents key risks for the firm. The risk register shapes the compliance-monitoring regime which is also endorsed by the TPI Board.

The TPI Board comprises a mixture of executive and non-executive members and meets at least quarterly. The TPI Board fulfils its duty by means of direct intervention or by delegating appropriate responsibilities to appropriate senior managers.

The Risk Committee

The Risk Committee (“RiskCo”) meet monthly to provide oversight over the firm risks, review the effectiveness of TPIs control environment and to enhance staff awareness of the risks and mitigating policies and procedures. The RiskCo comprises TPI Non-Executive Directors, one of which acts as chair, the Head of Risk and Compliance, Head of Platform, CASS Oversight Manager and other Department Heads.

The RiskCo receive monthly MI on the capital position of the firm and in providing oversight on the overall risk management framework of the principal risks, associated mitigation and controls, and may determine additional regulatory capital is required commensurate with the risk profile and regulatory obligations of the firm.

b. Risk Management Framework

TPI adopts an approach to risk management based on the three lines of defence model:

First Line of Defence:
The first line of defence include the processes and procedures implemented in each department that are overseen by Operational Management. These vary dependent upon specific function and include reviews, approval sign off and maintenance of registers and enforcement of TPIs policies. Operational Management are responsible for setting internal controls, assessing effectiveness and implementing corrective action where deficiencies in internal controls are identified.

Second Line of Defence:
The Risk and Compliance teams form the second line of defence, they develop and maintain the risk management framework, devise policies and procedures, identify and monitor risk. The Risk and
Compliance teams provide regular updates to the TPI Board and RiskCo to support the monitoring process and risk governance framework, and firm risk register.

Third Line of Defence:
Independent Internal Audit make up the third line of defence. Through a risk- based approach Internal Audit provide independent assurance to the TPI Board that risk management is working effectively.

C. Risk Appetite

The TPI Board recognise that a degree of risk is inherent in business activities. The risk tolerance for TPI is outlined through a series of risk appetite statements formulated by the RiskCo and TPI Board that define the types and degree of risk that the firm is willing to accept when executing the business strategy.

The risk appetite sets practical guidance to key stakeholders in the business about the level of tolerance for the risk in the principal categories which TPI is facing. It also sets the scene for the framework of controls and oversight required to ensure that risk exposure remains within acceptable levels. The TPI Board set the risk appetite statements on an annual basis and may do so more frequently as required due to new or changing risks.

3. Key risks

a. Credit and counterparty risk:

Credit risk is broadly defined as the possible loss due to debtors’ non-payment of loans, services or goods supplied. TPI income is derived primarily from management fees and platform fees. A negligible proportion of income is derived from invoiced services, primarily generated by the investment management team. The TPI Board has a low risk appetite to credit risk in relation to shareholder assets and own cash balances.

TPI exposure to credit risk results from institutions with whom TPI places its corporate cash balances and settlement of market transactions. TPI continually reviews its corporate cash balances and the counterparties with whom it is placed to ensure sufficient capital strength of the bank. TPI have neither a trading book, nor securitisation positions, and is not a credit-granting or lending institution; TPI therefore have no credit risk concerning these areas. TPI continually reviews its corporate cash balances and the counterparties with whom it is placed to ensure sufficient capital strength of the bank.

b. Market risk:

Market risk is the risks that arise from fluctuations in values of, or income from, assets or in interest or exchange rates. TPI does not have any exposure to market risk in relation to stock market investments. The risk of market movements affecting portfolios lies with clients, particularly as TPI
Pillar 3 Disclosures

does not guarantee returns on portfolios and the risks are outlined prior to investment. The risk of loss resulting from fluctuation in the market value of positions a fund’s portfolio attributable to changes in market variables, such as interest rates, foreign exchange rates, equity and commodity prices or an issuer's credit worthiness.

c. **Liquidity risk:**

Liquidity risk is the risk that TPI although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due or can secure such resources only at excessive cost. A key component to the TPI Board risk appetite is to ensure liquidity resources are adequate both as to amount and quality. TPI has no debt and maintains capital in excess of regulatory capital requirements.

TPI maintain a contingency funding plan and has access to two main sources of contingency funding through cash held on account, and inter-company balances across the Group. Liquidity positions are monitored and any material deviations in profits, costs or liabilities are reported by the Head of Finance to the TPI Board. This practice is designed to identify potential cashflow shortfalls as far in advance as possible, allowing an opportunity to take action with a view to preventing any shortfall being realized, avoiding the need for contingency funding.

d. **Operational risk:**

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. TPI have a low risk appetite for operational risk and seek to mitigate risks through the continued development of robust infrastructure and adherence to documented processes and controls. The effectiveness of internal controls are reviewed on a risk-based approach and as part of the Compliance Monitoring Plan.

As TPI is at the forefront of cutting edge technology in the financial services markets, this puts us at risk of cyber-crime. TPI manage this risk with structured and robust information security policies and procedures. TPI has in place business continuity and disaster recovery (“BC&DR”) plan which aims to ensure that in the event of severe business disruption, the firm can operate on an ongoing basis, with the preservation or restoration of key business services under interim arrangements, and that any losses are limited. The TPI BC&DR plan is reviewed at least annually or earlier as required.

There are risks associated with client redemptions and a reduction in fees earned by TPI as a firm remunerated on funds under management, adviser charging would also be affected as this is commonly a percentage of the value of the funds under management. All funds operate under clear mandates governed by the products & investment team, covering market, counterparty and liquidity risk, with outcomes of this due diligence are reported to senior management. All funds are valued daily which helps identification and transparency of risk positions. Monthly reporting and stress testing serve to highlight any issues with fund performance to senior management, and regular performance attribution analysis provides insight into the drivers of profits and loss.
e. **Concentration risk:**

Written policies and procedures that make up the TPI risk management framework address and control concentration risk. Exposures to counterparties in the same economic sector, geographical location or sector are considered as part of the ICAAP.

f. **Residual risk:**

Residual risk means the risk that credit risk mitigation techniques used by the firm prove less effective than expected. The institutions with whom TPI places its corporate cash balances are of comparable nature to banks that have come under pressure in recent history due to economic difficulties and remain in place having been aided and assisted by the UK government. Due to the nature of TPI’s credit risk outlined above, the residual risk of a failure in the firm’s credit risk mitigation techniques is negligible and therefore no capital has been retained specifically to account for this risk. Written policies and procedures that make up the TPI risk management framework address and control residual risk.

g. **Securitisation risk:**

Securitisation risk includes the risk that the own funds held by a firm for assets which it has securitised are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved. TPI have assessed there to be no material Securitisation risk as no own funds are held for assets which are securitised.

h. **Business risks:**

Business risk includes the acute risk to earnings posed by falling or volatile income; the broader risk of a firm’s business model or strategy proving inappropriate due to a range of factors; the risk that a firm may not be able to carry out its business plan and desired strategy; and risks arising from the remuneration policy. TPI does outsource certain activities and actively seeks to minimise the risk of loss or reputational damage through robust due diligence undertaken in advance of contracting with a third party, and robust outsourced services policies and procedures. Before a service or function is outsourced, a manager is assigned, and a full risk assessment is conducted, taking in to account various factors. Contractual and service level agreements are monitored, and due diligence conducted on both the organisation and contractual services on at least an annual basis.

Clearly defined accountability, reporting lines, committee structures and governance allow the TPI Board to receive management information on which to base their strategies and monitor implementation. The loss of a member of the TPI Board or a key investment or distribution professional could have a material adverse impact on retention and revenues and therefore the desired strategy. TPI seeks to minimise the risk of losing key employees and partners through competitive remuneration packages and maintaining an attractive working environment. The TPI remuneration committee ensure the remuneration policy is consistent with, and promotes, sound and effective risk management and does not encourage risk-taking that exceeds the stated risk appetite. The TPI Board has no risk appetite for unrewarded risk.
i. Interest rate risk, including interest-rate risk in the non-trading book:

TPI have reviewed exposure to interest-rate risk arising from any non-trading activities, as part of its obligations under the ICAAP Rules. TPI do not have any operations or activities which would bring about interest-rate risk in the non-trading book.

j. Pension obligation risk:

Pension obligation risk is the risk to a firm caused by its contractual or other liabilities to, or with respect to, a pension scheme (whether established for its employees or those of a related company or otherwise). TPI do not operate a defined benefit plan and therefore pension obligation risk does not apply.

k. Further risks considered:

Geopolitical risk:
A change in regime and political party can result in changes to local tax rates, investment attractiveness and other challenges. TPI perform horizon scanning stay abreast of political commentary to ensure that the Company can anticipate and plan for changes ahead.

Environmental, Social and Governance (ESG) risk:
Climate change should be practically considered by all firms. For TPI due to the long- time horizons within the pensions sector it is of particular concern as it will affect the risks to many investments and will impact long term investment decision making and investment values. The True Potential Pension Independent Governance Committee evaluate ESG considerations in investment decision making. The True Potential Investment Management Committee evaluate ESG matters in providing oversight of the investment management activities of the firm. The TPI supply chain consists primarily of professional services suppliers: such as solicitors, administrators, accountants, financial advisers, storage facilities, office supplies and technology providers, substantially all of which are based in or operating from the United Kingdom. Consequently, we consider our supply chain to be low risk with regards to such relationships and modern slavery.

Reputational risk:
Damage to reputation is likely to arise because of a failure to manage the other risks identified in this section in line with the stated risk appetite. The TPI Board recognise that effective risk management and strong internal controls are central to the business model, and the TPI Board have a very low risk appetite for activities that may impact the company’s reputation and/or brand.
4. Capital Requirements

As an investment firm as defined in Article 4 of the CRR and in accordance with Article 95 of the CRR and the FCA requirements and Rules outlined in the IFPRU Prudential Sourcebook for Investment Firms, TPI calculates its minimum capital requirement under Pillar 1 by calculating the higher of:

- the sum of the credit and market risk capital requirement;
- own funds based on Fixed Overheads Requirement ("FOR"), which equates to one quarter of relevant fixed expenditure in the preceding year; and,
- € 125,000.

a. Pillar 1 Minimum Capital Requirement

The below sets out the Own Funds reconciliation for TPI and should be read in conjunction with the Report and financial statements for the year ended 31st December 2019.

<table>
<thead>
<tr>
<th>Common Equity Tier 1 Items</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Instruments</td>
<td>139,376,051</td>
<td>£84,828,433</td>
</tr>
<tr>
<td>Share Premium accounts</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other reserves</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Funds for general banking risk</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>139,376,051</strong></td>
<td><strong>£84,828,433</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deductions from Common Equity Tier 1 Items</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses for the current financial year</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>£3,883,646</td>
<td>£3,730,873</td>
</tr>
<tr>
<td>Deferred tax assets that rely on future profitability</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Defined benefit pension fund assets</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£3,883,646</strong></td>
<td><strong>£3,730,873</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Own Funds</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Common Equity Tier 1 Capital</td>
<td>£139,376,051</td>
<td>£84,828,433</td>
</tr>
<tr>
<td>Deductions from Common Equity Tier 1 Items</td>
<td>(£3,883,646)</td>
<td>(£3,730,873)</td>
</tr>
<tr>
<td>Additional Tier 1 Capital</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tier 2 Capital</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Own Funds</strong></td>
<td><strong>£135,492,405</strong></td>
<td><strong>£81,097,570</strong></td>
</tr>
</tbody>
</table>
The Pillar 1 minimum capital requirement reconciliation is demonstrated below.

### Capital Requirements

<table>
<thead>
<tr>
<th></th>
<th>Credit Risk Requirement</th>
<th>Market Risk Requirement</th>
<th>(1) Sum of Credit and Market Risk</th>
<th>(2) Fixed Overhead Requirement</th>
<th>(3) Base Capital Requirement – EUR 125,000</th>
<th>Higher of (1) or (2) or (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£9,978,343</td>
<td>-</td>
<td>£9,978,343</td>
<td>£3,100,851</td>
<td>£106,247*</td>
<td>£9,978,343</td>
</tr>
<tr>
<td></td>
<td>£5,475,613</td>
<td>-</td>
<td>£5,475,613</td>
<td>£2,862,347</td>
<td>£112,118*</td>
<td>£5,475,612</td>
</tr>
</tbody>
</table>

*BoE spot rate 31/12/19
*BoE spot rate 29/12/18

As at 31st December 2019 the minimum Pillar 1 capital requirement for TPI is **£9,978,343**.

The TPI Board consider additional capital requirements under Pillar 2 from the stress testing and assessments conducted for the risks identified in this document as part of the ICAAP. The Pillar 2 capital requirements are outside the scope of this Pillar 3 Disclosure document.

### Surplus Capital

<table>
<thead>
<tr>
<th></th>
<th>Own Funds</th>
<th>Capital Requirement</th>
<th>Surplus Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£135,492,405</td>
<td>£9,978,343</td>
<td>£125,514,063</td>
</tr>
<tr>
<td></td>
<td>£81,097,570</td>
<td>£5,475,612</td>
<td>£75,621,958</td>
</tr>
</tbody>
</table>

### Total Capital Ratio

In accordance with Article 92 (1) of the CRR institutions should at all times satisfy a Total Capital Ratio of 8%. The total capital ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount as calculated in accordance with Article 92 (3) of the CRR.

As an Investment firm authorised under Article 95 of the CRR TPI does not calculate the own funds operational risk requirement.

For the year ending 31st December 2019 TPI satisfied the requirements, as below:

<table>
<thead>
<tr>
<th>Total Capital Ratio</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Capital Ratio</td>
<td>108.63%</td>
<td>118.49%</td>
</tr>
</tbody>
</table>
5. Remuneration Disclosure

a. Introduction

This remuneration policy disclosure is provided in accordance with Article 450 of the CRR. As a key driver of behaviour, the remuneration of senior and risk-taking staff is an important area of focus to ensure that risk and reward are aligned, it therefore forms part of the culture and governance priorities.

TPI has formed a Remuneration Committee ("RemCo"), within the authority delegated by the TPI Board, the RemCo is responsible for approving and overseeing the implantation of the remuneration policy, and in doing so considers the pay and conditions across the group, ensuring the remuneration policy is consistent with, and promotes, sound and effective risk management and does not encourage risk-taking that exceeds the stated risk appetite. The RemCo considers the terms of bonus plans, and individual remuneration packages of senior management and other senior group partners and employees, including all code staff. No one individual is involved in decisions relating to his or her own remuneration.

The RemCo takes full account of TPIs strategic objectives in setting remuneration policy and is mindful of its duties to relevant stakeholders, in doing so the RemCo seeks to preserve stakeholder value by ensuring the successful retention, recruitment and motivation of its partners and employees.

b. Code staff criteria

In accordance with Commission Delegated Regulation (EU) 604/2014 and FCA Rules all staff who are deemed to have a material impact on the risk profile of TPI are considered as a material risk taker ("MRT").

The Qualitative criteria in Article 3 of Regulation (EU) 604/2014 for identifying a MRT at the firm includes members of the management body in both the management and supervisory functions, senior management, heads of material business units, and certain staff members reporting into those identified with managerial responsibility of a material business unit.

The Quantitative criteria in Article 4 of Regulation (EU) 604/2014 for identifying a MRT at the firm includes staff members awarded total remuneration of €500k or more in the preceding financial year. It also includes staff awarded remuneration equal to or greater than the lowest total remuneration in that financial year of a member of senior management, heads of material business units, and certain staff members reporting into those identified with managerial responsibility of a material business unit.

c. Remuneration Principles

Remuneration is made up of fixed pay (drawings or salary and benefits) and performance related variable pay. Annual discretionary bonuses are considered by the RemCo, and any additional
discretionary bonuses are only awarded in exceptional circumstances and must all be approved by the RemCo. The remuneration of the code staff is intended to ensure the continued ability to attract and retain the most qualified employees and to provide a solid basis for succession planning. In connection with the annual assessment of the remuneration of the code staff, developments in market practice are assessed systematically.

Pay is designed to reflect success or failure against a range of competencies which are assessed annually. This reviews competencies for staff covering both financial and non-financial metrics, specific behavioral competencies including compliance matters. When determining compensation, including any variable compensation, managers and the RemCo will give consideration to:

- Overall firm performance;
- Collective performance of the relevant team; and,
- Individual performance relative to role requirements (including performance against agreed financial and non-financial objectives where relevant) and with specific attention to stand out performance.

d. Aggregate remuneration cost for Code staff

For the period **1st January 2019 to 31st December 2019** there were a total number of **17 Remuneration Code staff**.

Fixed Remuneration totaled **£1,205,458.08** and variable remuneration **£773,429.80**.

The amounts of fixed remuneration for the financial year reflect the professional experience and responsibilities of the Code Staff as set out in the job description and terms of employment. The amounts of variable remuneration reflect the performance of the Code Staff and in accordance with the remuneration policy is justified on the basis of the financial situation and overall performance of TPI.

### Remuneration Code Figures - 2019

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate total remuneration (based on current financial year compensation for the relevant code staff):</td>
<td>£1,978,887.88</td>
</tr>
<tr>
<td>Beneficiaries:</td>
<td>17</td>
</tr>
<tr>
<td>Fixed Remuneration:</td>
<td>£1,205,458.08</td>
</tr>
<tr>
<td>Variable Remuneration:</td>
<td>£773,429.80</td>
</tr>
</tbody>
</table>