Pillar 3 Disclosure (as at 31 October 2014)

The F&C Group (part of the BMO Financial Group)

Purpose

This document sets out the F&C Group Pillar 3 disclosure as at 31 October 2014. The aim of Pillar 3 is to improve market discipline by requiring firms to publish certain details of their capital, risk exposures and management practices. The requirements of Pillar 3 also require firms to have a formal disclosure policy to assess the appropriateness, verification and frequency of disclosure. This document is F&C's response to the Pillar 3 requirements and, as such, constitutes the F&C Group Pillar 3 policy.

Background

Pillar 3 disclosures are provided to meet the regulatory disclosure requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) referred to together as CRD IV, which came into effect on 1 January 2014. The disclosure requirements are set out in Part Eight of the CRR.

Pillar 3 disclosures are also provided to meet the regulatory disclosure requirements of the Capital Requirements Directive III (CRD III), still in effect, and as currently transposed into Chapter 11 of the FCA Prudential Sourcebook for Banks, Building Societies and Investment Firms.

Scope and Application of Disclosure Requirements

The disclosures in this document relate to the F&C Group ("F&C" or "the Group"), the parent of which, BMO Global Asset Management (Europe) Limited ("BMO GAM Europe"), is an unregulated holding company. BMO GAM Europe is ultimately a wholly owned subsidiary of the Bank of Montreal and therefore part of the Bank of Montreal Financial Group ("BMO Financial Group"). The F&C Group was purchased by the BMO Financial Group in May 2014.

The firms in the Group to which the Pillar 3 disclosure obligations apply, whether under CRD III or CRD IV, are:

F&C Group Company	Abbreviation	Country of incorporation	Prudential Regulator	CRD III / CRD IV
F&C Managers Limited	FCMGRS	England	FCA[3]	CRD III
F&C REIT Property Asset Mgmt. plc	FCRPAM	England	FCA	CRD III
Thames River Capital LLP	TRC	England	FCA	CRD III
Thames River Multi-Capital LLP	TRMC	England	FCA	CRD III
F&C Asset Managers Limited	F&CAM	England	FCA	CRD IV
F&C Management Limited	FCM	England	FCA	CRD IV
F&C Netherlands B.V.	FCNL	Netherlands	DNB[1]	CRD IV
F&C Portugal S.A.	FCPGL	Portugal	BoP[2]	CRD IV

All firms detailed are consolidated into the Group for prudential and accounting purposes. There are additional regulated firms in the Group that have no disclosure requirement under the CRD III or CRD IV. These are however included in the accounting consolidation.

The Group currently operates under a waiver from the UK financial regulator[3] from meeting any minimum capital requirements under the consolidated supervision rules and consequently disclosures are made on an individual basis across all in-scope firms.

There are no known current or foreseen practical or legal impediments (other than those set out by law or in regulation) to the prompt transfer of capital resources or repayments of liabilities between parent and subsidiary undertakings and there are no subsidiary undertakings where actual capital resources are less than the required minimum, i.e. each regulated company within the Group currently holds a surplus of regulatory capital.

[1] De Nederlandsche Bank
[2] Banco de Portugal
[3] Financial Conduct Authority

Frequency and means of disclosure

The capital and risk disclosures required under Pillar 3 are required to be produced at least annually and published in conjunction with the date of publication of the Annual Report and Accounts. BMO GAM Europe has an accounting reference date of 31 October. Following the acquisition of the F&C Group by the BMO Financial Group the financial year-end dates of: F&CAM; FCM; FCMGRS; FCRPAM; FCNL; and FCPGL were changed from 31 December to 31 October. The year-end dates of TRC and TRMC remain as 31 March. Given the mismatch between the year-end dates and the prudential regulatory reporting dates, the regulatory capital submission reported closest to 31 October 2014 has been disclosed, which for all firms is as at 30 September 2014, apart from F&C Managers Limited and F&C REIT Property Asset Management plc, both of which are as at 30 June 2014.

None of the disclosures are subject to audit and have been produced solely for the purposes of satisfying the Pillar 3 regulatory requirements.

These disclosures are published on the F&C Group corporate website (www.fandc.com) and are referenced in the financial statements of all in-scope CRD III and IV firms.

Risk Management Objectives and Policies

The Group is a diversified asset management group focused on two core client segments: strategic partners and consumer & institutional clients. The Group manages investments from multiple investment centres including London, Edinburgh, Amsterdam and Lisbon.

Our risks are typical to those of investment managers and fall under the categories of financial risk, operational risk and strategic risk. It is important to note that all risks are monitored and managed as part of a governance and risk management framework which is consistently applied across all firms within the Group. Whilst the parent of the Group is BMO GAM Europe, the overarching governance of the Group is implemented and overseen by the Board of F&C Asset Management plc ("FCAM"), a direct, and the sole subsidiary, of BMO GAM Europe. This uniformity has been applied as all Group firms are managed and operated to support the Group's objectives and strategies, and therefore the FCAM Board and Group Management provides oversight of all operations.

Control Environment

The Group is committed to high standards of business conduct and seeks to maintain these across all areas of its business and all jurisdictions in which it operates. The Group has procedures for reporting and resolving matters that do not meet the required standards of business conduct.

The Group has an appropriate organisational structure for planning, executing, managing and monitoring business operations in order to achieve its objectives. This structure is designed to provide clear responsibilities and a control framework for key areas of the Group's business.

A Governance structure is in place to manage and escalate risks throughout F&C to include: Executive Management Committee, Audit & Compliance Committee, Risk & Remuneration and the FCAM Board which reports directly into the Bank of Montreal Governance structure.

Operational responsibility for the control environment rests with the F&C Group Chief Executive and is devolved through a documented executive structure with clearly delegated and appropriate levels of authority. Members of the Executive Management Committee are, therefore, accountable for the operation of the systems of internal controls within the Group's business.

The Risk team supports the F&C Board and Bank of Montreal in discharging their duty to ensure that effective systems and controls are in place. The Risk team operates independently of any other business line, investment team or function.

The key objective of the Risk team is to assist in developing and implementing a robust risk and control framework, as approved by the FCAM Board and BMO, which will enable risks to be identified and assessed across the Group, managed within acceptable tolerance levels, monitored on a regular basis and reported to management in a timely manner.

The Group also has separate Compliance and Internal Audit functions and operates a three lines of defence model. On a day-to-day basis the risk framework is owned by the Risk function and the risk processes are managed via the Risk and Compliance teams. Investment risk is managed at the individual investment desk level with oversight from a dedicated Investment Risk function. Internal Audit provides independent, objective assurance on the control framework

The Mandate Compliance function is responsible for the coding of investment restrictions within the order management system for pre and post trade compliance monitoring and investigates any breaches and reports accordingly to senior management.

The Investment Risk Oversight team is responsible for assessing and challenging Group-wide activities that give rise to investment risk. The team's remit is to provide independent oversight on the effectiveness of all fund managers in managing the investment risk in their portfolios.

Monitoring and Corrective Action

Compliance and Internal Audit conduct regular monitoring of various business areas and control procedures in line with a plan agreed quarterly.
Any issues of significance are brought to the attention of the ACC through the regular reporting process. Planned corrective actions are independently monitored for timely completion and reviewed by the ACC.

A formal annual internal control report is produced for F&C's clients providing assurance on both the design and the operating effectiveness of F&C's control procedures. The report follows the Audit & Assurance Faculty ("AAF") guidelines established by the ICAEW.

Approach to Operational and Strategic Risk

The identification of major operational and strategic risks is carried out by the FCAM Board in conjunction with management, and procedures to manage these risks, where possible, are reviewed and agreed.

Risk produce regular reporting to the relevant Boards and Committees which have been reviewed by the appropriate business units. These will highlight any changes to the risk ratings and significant risk events. These reports are discussed in detail by the Group Administration Committee, which includes members of the Group Management Committee and the Board. All significant items are identified and reported to the Board on a regular basis.

The Risk function facilitates the identification and documentation of risk in the business and helps the business identify mitigating actions in accordance with the Group Risk Policy and F&C's Risk Appetite Statement. In addition, any business incidents, including mandate breaches, are reported by the business to the risk team and they are recorded and actively monitored until resolved using F&C's ERM system.

Approach to Financial Risk

The Group's risk management objectives and policies applicable to this disclosure and with specific regard to counterparty credit risk, liquidity risk and market risk are summarised below.

F&C adopts a low risk approach to treasury management and seeks to ensure that its capital is preserved and financial risks are managed appropriately.

The Group's corporate treasury activities are managed by the Finance function within parameters defined by the Board. The regulatory capital and treasury positions of the Group are reported to the Board on a regular basis.

Counterparty Risk manages new counterparty / broker requests, undertaking both quantitative and qualitative assessments and due diligence and making appropriate recommendations for approval / rejection and report directly to the Counterparty Credit Committee (CCC) which reports directly to the Executive Management Committee.

The Group is exposed to a number of financial risks in the normal course of its business. The associated risk management processes have been designed to manage these risks and recognise that treasury management operations are specifically not treated as a profit centre. The key aspects are detailed below:

- The Board Reserved List prohibits the establishment of borrowing facilities without the prior approval of the Board.
- Placing of funds on deposit is short term only (maximum term 90 days) – unless approved by Group Management.
- Deposits may only be placed with counterparties approved by the CCC, and the Board sets the appropriate limit of exposure to any one counterparty.
- Foreign currency exposure is managed to reduce the risk and impact of movements in exchange rates by the repatriation of surplus foreign currency to Sterling. Surplus currency balances are defined as being the level of cash which exceeds the regulatory, legal and working capital requirements of the relevant firms.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial assets, but benefits from the certainty of fixed interest rates on its issued debt.

Remuneration

The Group has been subject, on a consolidated basis, since 1 January 2014 to the requirements of the revised FCA Remuneration Code ("the Code") applying in respect of remuneration paid to CRD IV categorised code staff ("Code Staff"). A key objective of the Code is to ensure remuneration policies promote effective risk management and that the pay practices within firms do not encourage inappropriate risk taking by staff or result in them paying out more in variable remuneration than they can afford.

The FCA has adopted a proportionate approach to the implementation of its Remuneration Code as set out in general guidance it has issued as to how firms may apply the Code in a proportionate manner based on their risk profile. This guidance confirms that FCA's view that it will normally be appropriate for a firm categorised as being in proportionality level three to dis-apply the pay-out process rules imposed under CRD IV in respect of variable remuneration. These are the rules relating to payment of remuneration in retained shares or other instruments, deferral, ratio of variable remuneration to fixed remuneration, and post-award performance adjustment. The Group has been categorized as being a proportionality level three firm for the purpose of the Code and so consequently has determined that it is appropriate to dis-apply pay out process rules to its Code Staff. However, the Group must still comply with all other requirements within the Code in respect of its remuneration practices and the governance thereof. It is recognised by the Group that its ability to disapply on grounds of proportionality the aforementioned pay out process rules may be removed in due course if revised Guidelines on Sound Remuneration that the European Banking Authority has recently proposed are implemented as currently drafted.

Decision-making process for remuneration policy – the FCAM Board has formed a Risk & Remuneration Committee (Committee) composed of three of its non-executive directors. The Committee is required to meet not less than four times a year. The Committee's responsibilities include: ensuring that the remuneration policies, procedures and practices operated by the Group adhere to the requirements of the Code, are consistent with and promote sound and effective risk management and the achievement of fair outcomes for all customers of the Group; do not encourage risk-taking that exceeds the level of tolerated risk set by the Board set for the Group; are in line with the business strategy, objectives, values and long-term interests of the Group itself and those of its shareholder and customers; and do not limit the Group's ability to safeguard and, where required, strengthen its capital base (the Remuneration Criteria).

The Group has prepared and maintains an F&C Remuneration Policy Statement (the Policy Statement) which defines the means by which it will achieve the objective of providing total compensation to its employees that is warranted by corporate, business unit/function and individual performance and is comparable to market competitors, whilst being consistent with the Remuneration Criteria referenced above. The Policy Statement has been written so as to be in line with the business strategy, objectives, values and interests of the Group and those of its members and of its customers and to avoid conflicts of interests between F&C, its customers and its shareholder. The Policy Statement is reviewed and approved by the Committee at least once per annum. It applies to all employees of the Group regardless of location including, but without limitation, Code Staff.

The Committee will, taking into account the Remuneration Criteria and having consulted with the Chairman of the Board, the Group Chief Executive and the BMO Human Resources Committee, determine the specific remuneration packages for each of the Executive Directors within the Group and will recommend and monitor the specific remuneration packages of senior management below the Board level and of all other Code Staff. The Committee will also approve and monitor the operation of the existing or any future cash bonus and long-term award schemes within Group and authorise any annual payments or awards in respect thereof.

The Group is committed to awarding its staff an appropriate mix of salary, cash bonus and long-term awards. Fixed remuneration is determined taking into account factors including the requirements of the particular role and the staff member's experience and expertise. Fixed remuneration is set at a level that is sufficient to attract high calibre staff as well as to permit the operation of a fully-flexible remuneration policy (including the possibility of a staff member receiving reduced or no variable remuneration in a particular year). The Committee keeps the balance between fixed and variable remuneration under review.

Any cash bonus and long-term award pools are determined annually by the Group for approval by the Committee by reference to the financial performance of the Group and the wider BMO Financial Group of which it is a part and the employment markets in which it operates. This ensures alignment between the interests of customers, the shareholder and employees. Allocation of the pools once determined at the level of the Group are then allocated to respective functions within the Group by the Chief Executive in consultation with the Group's Executive Committee members taking into account contribution of business areas within the Group to corporate performance, performance of these areas in line with pre-determined targets and objectives and competitive market pay data. Awards are then determined for individual employees by line management with final approval resting with the Chief Executive (save in respect of those members of senior management whose awards are also subject to review and approval by the Committee as referenced above) taking into account individual achievement during the relevant performance year relative to pre-agreed objectives and assessment of market comparability. Awards of variable remuneration may include a deferred element made in the form of Bank of Montreal Restricted Share Units with deferral being for three years from the date of the award. No individual is involved in decisions relating to his or her own remuneration.

Unvested variable remuneration awards with regard to any employee may be reduced, at the absolute discretion of the Committee if:

- there is reasonable evidence of employee misconduct or material error;
- the Group, the relevant business unit or the investment funds managed by any member of the Group suffer subdued or negative financial performance taking into account both current compensation arrangements and previous reductions in the payment of variable remuneration awards; or
- the Group, the relevant business unit or the investment funds managed by the Group are the subject of any material failure in risk management or it is anticipated that the risk profile of any of the same has materially increased or is likely to do so in the near future such that an adjustment in unvested variable remuneration becomes appropriate.

The remuneration of staff engaged in the risk management and compliance functions within the Group will be aligned to the achievement of the objectives linked to their functions and independent of the performance of the business. The remuneration of the senior personnel in the risk management and compliance functions is overseen by the Committee.

Determination of Code Staff - A record of Code Staff is maintained by Human Resources and is reviewed at least annually by the Committee. A revised list of Code Staff has been prepared in accordance with Commission Delegated Regulation 604/2014.

Capital Resources

As a result of the regulated firms changing their accounting reference date to 31 October during 2014 (with the exception of Thames River Capital LLP and Thames River Multi-Capital LLP) in order to align with the reporting date of the BMO Financial Group, the firms were not required to report their capital adequacy position at 31 October 2014. Consequently, the most recently reported regulatory capital submission as at that date is disclosed which for all firms is as at 30 September 2014, apart from F&C Managers Limited and F&C REIT Property Asset Management plc, both of which most recently reported at 30 June 2014. The capital resources disclosures will therefore differ from the total of the relevant balance sheet items in the firms' published financial statements as at 31 October 2014.

The tier 1 capital resources of each firm consist of share capital (or members' capital for Thames River Capital LLP and Thames River Multi-Capital LLP), share premium and profit & loss account and other reserves. Share capital relates to ordinary shares in each firm that are allotted, called up and fully paid. F&C Asset Managers Limited was regulated under CRD IV rules at 31 October 2014 and the disclosures below reflect that position, however, due to a change in its regulatory permissions in November 2014, the firm is now required to maintain pillar 1 requirements on a CRD III basis.

Latest reported Capital Resources Position	**CRD III FCMGRS** £'000	**CRD III FCRPAM** £'000	**CRD III TRC** £'000	**CRD III TRMC** £'000	**CRD IV F&CAM** £'000	**CRD IV FCM**[4] £'000	**CRD IV FCNL**[5] €'000	**CRD IV FCPGL**[6] €'000
Tier 1:								
Share Capital / LLP Capital	500	1,000	7,000	3,260	16,000	32,332	209	9,000
Share Premium	-	-	-	-	-	42,197	112,927	-
Profit & loss and other reserves[7]	22,144	5,926	(10)	241	883	11,458	(95,546)	10,008
Total Tier 1 Capital	22,644	6,926	6,990	3,501	16,883	85,987	17,590	19,008
Deductions from Tier 1:								
Defined benefit pension fund assets	-	-	-	-	-	-	-	(109)
Tier 1 capital after deductions	22,644	6,926	6,990	3,501	16,883	85,987	17,590	18,899
Tier 2 capital	-	-	-	-	-	-	-	13
Deductions from total capital[8]	(13,831)	(239)	(512)	(6)	-	-	-	-
Total regulatory capital resources	**8,813**	**6,687**	**6,478**	**3,495**	**16,883**	**85,987**	**17,590**	**18,912**

4 F&C Management Limited capital resources include a £50k equity holding in a subsidiary financial sector entity, not deducted due to CRD IV transitional provisions, and a deferred tax asset of £7,296k which is below the threshold for deduction from capital resources under CRD IV rules
5 F&C Netherlands BV holds a deferred tax asset of €3,640k, not deducted due to CRD IV transitional provisions
6 Tier 2 capital in F&C Portugal SA relates to eligible credit risk adjustments
7 CRD III firms: excludes current period non-material losses. CRD IV firms: includes deduction for unaudited losses or excludes unaudited profits, whichever is applicable, for the nine-month period to 30 September 2014
8 Deduction for illiquid assets relevant for CRD III firms.

Capital Resource Requirements

All firms are required to calculate Pillar 1 capital requirements, irrespective of being on a CRD III or CRD IV basis, as the higher of: (a) the sum of the credit risk capital requirement and the market risk capital requirement; and (b) the fixed overheads requirement. The firms are not required to calculate or include an operational risk requirement under Pillar 1.

Latest reported Capital Resource Requirements	**CRD III FCMGRS** £'000	**CRD III FCRPAM** £'000	**CRD III TRC** £'000	**CRD III TRMC** £'000	**CRD IV F&CAM** £'000	**CRD IV FCM** £'000	**CRD IV FCNL** €'000	**CRD IV FCPGL** €'000
Credit risk capital requirement	589	233	310	369	589	8,010	1,446	375
Market risk capital requirement	-	73	52	1	-	1,858	110	-
Fixed overheads requirement	1,041	212	1,280	268	4,204	15,094	8,628	1,626
Total Pillar 1 Requirement	**1,041**	**306**	**1,280**	**370**	**4,204**	**15,094**	**8,628**	**1,626**

The Group calculates the Pillar 1 credit risk capital requirement for each firm in accordance with the standardised approach. Further disclosures relating to the credit risk capital component have in most cases been considered immaterial as the capital requirement for most firms is the fixed overhead requirement. The following table shows the credit risk exposure class for F&C REIT Property Asset Management plc and Thames River Multi-Capital LLP where the capital resource requirement is not the fixed overhead requirement. The market risk for these two firms relates to foreign exchange.

Credit risk exposure class	**CRD III FCRPAM** £'000	**CRD III TRMC** £'000
Institutions	120	72
Other items	113	297
Total credit risk capital requirement	233	369

Capital Adequacy Ratios

CRD IV firms are required to hold a total capital ratio of 8%, calculated using total exposure values, which for each firm is the Pillar 1 requirement times 12.5. The surplus of total capital is the surplus of capital resources over the pillar 1 capital requirement.

	F&CAM £'000	**FCM** £'000	**FCNL** €'000	**FCPGL** €'000
Latest reported Common Equity Tier 1 and Total Capital ratios for CRD IV firms at 31 October 2014	32.13%	45.57%	16.31%	93.06%
Surplus of total capital	12,679	70,893	8,962	17,286

Compliance with the Pillar 2 Rule Requirements

The adequacy of capital to support current and future activities is monitored in the Internal Capital Adequacy Assessment Process ("ICAAP"). The level of capital required has been assessed through reviewing a number of scenarios and comparing them with the base case scenario of our budgeted business plan. This approach identifies the timescale and extent of possible capital deficiencies should an adverse scenario arise. The additional level of capital required to cover the Group against such a scenario can then be assessed and / or the mitigating actions identified which are required to ensure a continued capital surplus.

The latest base case scenario has been prepared as at 31 October 2014, with actual results to this date and forecasts for a three-year time span to 31 October 2017. This time span is deemed appropriate as it shows both a short-term view of any adverse scenarios and also an impact over the medium-term during which actions would be taken if continued deterioration were to occur.

Verification, Frequency and Ongoing Review of the Disclosures

The disclosures detailed in this document are updated in conjunction with the ICAAP, and generally on an annual basis, unless there is a significant event which would detrimentally impact the capital and risk position of the Group.

The disclosures detailed in the ICAAP are reviewed and formally adopted by the Executive Management Committee and the Board of FCAM, and the Board of each requisite firm.

The Pillar 3 disclosure document is reviewed and approved by the Group Chief Operating Officer.

Global reach. Regional expertise

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F&C is now part of BMO Global Asset Management, which has offices in Canada, United States, Luxembourg, Abu Dhabi, China and Australia.

Full details are available at www.bmo.com/gam

(1)Authorised and regulated in the UK by the Financial Conduct Authority.
(2)F&C REIT Property Asset Management Plc is a wholly owned subsidiary of F&C REIT Asset Management LLP and is Authorised and regulated by the Financial Conduct Authority.
(3)Regulated in the Netherlands by the Autoriteit-FM.
(4)Regulated in Portugal by the CMVM and the Bank of Portugal.
CM:

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