Fisher Investments Luxembourg, S.àr.l.

Investment Firms Regulation Disclosures 2022

June, 2023

Contents

INTRODUCTION

This document, which should be read in conjunction with Fisher Investments Luxembourg, S.à r.l ("FIL", "the Firm") 2022 annual financial statements, serves as FIL's Pillar III public disclosure requirement as set forth in Part 8 of EU Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) as well as CSSF Circular 17/673 relative to the EBA/GL/2016/11. FIL is authorised and regulated by the *Commission de Surveillance du Secteur Financier* ("CSSF") and this document sets out how the FIL complies with its obligations to identify, manage and mitigate identified risks.

PURPOSE

The Pillar III document is intended to allow market participants to assess key information related to FIL's capital, risk exposures and risk assessment process. FIL is thus required to have in place robust governance arrangements and effective procedures which allow it to identify, manage, monitor and report the risks it is or might be exposed to.

PILLAR III DISCLOSURES

The EU regulatory framework aims at ensuring how much capital regulated firms must retain to support their business. The rules are set out in the new IFR/IFD Capital Requirements framework.

BUSINESS MODEL

The Firm provides discretionary portfolio management services to high net worth MIFID Retail clients via established branches in Denmark and the Netherlands and via cross-border activities into Belgium, France, Sweden and Norway. In France, the Firm is also providing the services of insurance brokerage. Where a prospective client in France has assets invested in an insurance ('assurance vie' or 'contrat de capitalisation') policy, the Firm is distributing life insurance policies issued by partner insurance companies.

GOVERNANCE ARRANGEMENTS

FIL has setup three Lines of Defense, which all have a focus on the management of risks and controls. The First Line of Defense is business management. The Second Line of Defense consists of Enterprise Risk Management and Compliance, both of which are independent of the business. The Third Line of Defense, Internal Audit, is independent from both the First and Second Lines of Defense and reports directly to the Board of Managers.

Board of Managers

The Board of Managers of the Firm are responsible for the Firm's risk management governance structure and how the Firm's risk exposure must be managed in line with the Firm's overall business objectives and within its stated risk appetite. This includes the governance of the process for identifying, evaluating, managing and reporting the significant risks faced by the Firm.

The Board of Managers are ultimately responsible for ensuring that the Firm maintains sufficient capital and liquidity resources to meet its regulatory capital and liquidity requirements and to support its growth and strategic objectives. Risk management is embedded throughout the business, with the overall risk appetite and risk management strategy approved by the Board of Managers propagated down throughout the business as appropriate.

The Non-Executive Directors have broad business and commercial experience with independent and objective judgement and they can provide independent challenge to the Board of Managers. They are able to allocate sufficient time to meet the expectations of their role with the Firm.

As of 31 December 2022, FIL Board of managers comprises six members; of which one with six directorships, two with three directorships, two with two directorships and one with one directorship.

Authorised Management
The Authorised Management is composed of three members who are in charge of the effective, sound and prudent day-to-day business and risk management of FIL. The Authorised Management implements, through internal written policies and procedures, the strategies and guiding principles set by the Board of Managers in relation to central administration and internal governance and ensures that FIL is in compliance with legal and regulatory requirements taking into account the reports/comments of the internal control functions. The decisions taken by the Authorised Management in these areas are duly documented. Authorised Management has veto rights on any decision made by any FIL specialised committees.

Internal Control Committee
The Internal Control Committee is comprised of at least two Authorized Managers, including the Chief Compliance and Risk Officer, and is subject to the Firm's Compliance Charter. It is responsible for oversight of all aspects of the Firm's risk, internal audit, and compliance functions, in accordance with section 6.2 of Circular CSSF 20/758, and reporting to the Board of Managers on such matters.

The Internal Control Committee meets on a quarterly basis or otherwise as appropriate.

Joint Investment Oversight Committee (the "IOC")
For efficacy purposes, the IOC works as a cross-entity committee with membership representation from each of the Fisher Group companies that have an interest in oversight by the IOC. At least one member shall be a member of the Board of Managers of the Firm.

Members of the IOC shall vote only on matters impacting the applicable Fisher Group company that such members represent. The IOC is governed by the Joint Investment Oversight Committee Terms of Reference, which also sets out the full membership of the IOC.

The IOC is responsible for overseeing the suitability of advice provided by the Firm, and its affiliates Fisher Investments Ireland Limited and Fisher Investments Europe Limited (each, a "European Fisher Entity"), including the assumptions and analysis underlying such advice, as well as overseeing Fisher Investments' management/sub-management of client accounts managed by a European Fisher Entity or introduced to Fisher Investments.

The IOC meets at least four times per year and otherwise as appropriate.

CAPITAL ADEQUACY FRAMEWORK
The Firm's overall approach to assessing the adequacy of its internal capital is documented in the Internal Capital Adequacy and Risk Assessment process("ICARA"). Under the new IFR/IFD requirements and methodology, the Firm has been classified as Class 2 investment firm and calculated its own funds minimum requirements based on the Fixed Overheads Requirement ("FOR").

The ICARA includes an assessment of all material risks faced by the Firm 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 needs to be held.

Subsequently, Pillar 3 then requires firms to disclose information regarding their risk assessment process and capital resources with the aim to encourage market discipline by allowing market participants to assess key information on risk exposure and the risk assessment process.

Capital resources and planning Structure (12/2022) – Quantitative Disclosures
As at the 31st of December 2022, the internal own funds of the Firm were composed as follows:

		2022
Common Equity Tier 1 capital:		
Called up share capital	€	9,500,000
Audited reserves	€	6,027,452
Other reserves	€	834,824
Deductions from tier 1 capital	€	(4,435,665)
Total Common Equity Tier 1 capital	€	11,926,611

The Firm's base capital requirement is €75,000.

As at 31st December 2022 the Firm's K-Factor Requirement is 646,070 € and the Fixed Overhead Requirement (FOR) is 7,473,807 €. Therefore, the Firm's capital requirement as at 31st December 2022 is 7,473,807 €, which results in surplus capital of 4,452,804 € over the minimum requirement.

Stress and scenario testing
A number of stress tests have been completed and updated on a periodic basis. The suite of stress tests and scenarios supports the ICARA, and investigates the potential impacts of a severe market downturn and that of a deterioration of the Firm's liquidity position. Under current market conditions and business plans of FIL, management of the Firm's parent company, Fisher Investments ("Parent"), does not foresee any material issues in managing FIL's business and capital so as to survive either of these stress tests whilst meeting minimum regulatory standards. A reverse stress test considering an extreme market scenario illustrates the requirements to render the Firm's business model unviable and cease trading, and invoke the Orderly Wind Down Plan.

FIL holds sufficient capital to cover risk exposures under normal and stressed operating conditions and to undertake an orderly wind down in such an event. Therefore, there is no need to hold additional capital. However, the stress tests indicate the importance of ongoing capital management and the financial support of the Parent. The financial position of the Parent remains viable and there is no substantial doubt about FIL's ability to continue as a going concern over next one to three years.

The Board of Managers are therefore comfortable that the Firm is, and has been throughout the financial year, adequately capitalised for Pillar 1 purposes. As at 31st December 2022, the Firm held 8,701,344 € in cash and cash equivalents. The Board of Managers are comfortable that this will ensure prudent capitalisation and cover for market downturns and other risks that may materialise in the short to medium term.

The Board of Managers continually monitors the performance of the Firm and capital adequacy is regularly assessed by them. The Firm will also monitor risks throughout the year and decide if additional capital should be held against them. Additional risks that supplement the Pillar 1 requirements are detailed above and, where necessary, additional capital will be provided.

RISK MANAGEMENT OBJECTIVES

FIL's risk management infrastructure is supported by the First, Second and Third Lines of Defense control functions, including Group Enterprise Risk Management, Compliance, Group Office of the General Counsel, and Internal Audit. The risk management objectives and policies are thus supported by the Firm's Risk Management Framework ("RMF") which establishes the governance arrangements and principles of how risk is to be identified, assessed, quantified, monitored and controlled. FIL has a Chief Risk Officer, who is based in Luxembourg and registered with the CSSF in accordance with regulatory requirements. He provides reports on a regular basis to the Authorised Management and the Board of Managers. Key risks and controls are continuously monitored by line management supported by the Second Line of Defense with oversight provided by business line senior management.

Risk Profile

The Firm's profile of these risks is continually evolving and is generally driven by: changes to the market in which the Firm operates; the Firm's strategies and business objectives; and the Firm's business/operating models. The Firm will seek to generate positive returns through carefully considered risk taking and robust risk management. As such, the effective management and control of both the upside of risk taking and its potential downside is a fundamental core competency of the Firm.

Risk Appetite

The Risk Appetite Statement ("RAS") articulates the major risks that FIL is willing to assume in the pursuit of its strategic goals and in line with its business model. It includes the major risks (Level 1 risks) as well as the degree of acceptance by FIL and the business units that are mainly concerned with the monitoring of those risks. The embedment of the RAS into the RMF and across business units helps promoting a robust risk culture within FIL through the implementation and monitoring of Level 1 risks throughout the Firm. The Board of Managers is ultimately responsible for approving the RMF and RAS, and for capital assessments as part of the ICARA, setting the tone from the top on the Firm's risk culture, challenge and oversight of risks identified in FIL.

Risk Assessment

The Board of Managers are responsible for approving the Risk Assessment Framework, which is used to ensure that the Firm has a comprehensive understanding of its risk profile, including both existing and emerging risks facing the Firm, and to enable it to assess the adequacy of its risk management in the context of the Firm's risk appetite. The following principal risks are mitigated as follows:

Potential impact of adverse performance on profit generation: Due to the nature of the Firm's operations, its liquidity is primarily dependent upon the Parent's performance and secondarily on the Firm's ability to successfully sell and market investment services and maintain acceptable client outcomes. The Parent commits to support FIL for at least 12 months following the date of approval of the FIL financial statements through a signed Letter of Support, and ongoing liquidity requirements are reviewed on a periodic basis and met via funding from the Parent. As a conclusion from the ICARA, FIL has sufficient liquidity to meet its liabilities as they fall due, under normal and stressed operating conditions.

Financial impact from the loss of largest clients: The Parent currently (as of 31 March 2023) manages approximately $192 billion of retail and professional client assets. Due to the nature of the Parent's operations and the number of clients, management does not anticipate that a small loss of the largest clients will have a material impact on operations.

Financial impact from poor client service: Management of client accounts is an internally operated process. For all clients, a relationship manager serves the client over the life of the client relationship. Client retention is a key metric of the Firm resulting in significant oversight of client service.

Key person departures: Key positions within the Parent and FIL are cross trained and essential functions are not performed by one key individual. There is also significant career development encouragement within the Firm.

Client claims and legal actions: Client claims and issues are timely elevated in accordance with the Complaints Handling process, and where appropriate, include elevations to the Parent's management and Legal teams. FIL is covered under the Parent's professional indemnity insurance policy with an A-rated lead underwriter. Management reviews the policy periodically to ensure adequate coverage is in place and to minimise risk exposure.

Impacts from regulatory breaches: FIL relies on internal and external Legal and Compliance resources to implement policies and procedures consistent with regulatory requirements and to monitor compliance. Identified breaches are managed using the operational risk event process to "identify, evaluate, and mitigate" to prevent reoccurrence.

Impact of persistent poor performance: A potential decline in assets under management following a prolonged period of underperformance, which could largely be due to a market downturn that could lead to lower overall resources available from the Parent, can be considered market risk. To mitigate, the Parent's Finance function regularly analyses FIL's cash flow forecast to determine likely funding requirements. Potential impacts on FIL's financial position are modelled as stress test scenarios in the ICARA.

It should be noted that neither FIL nor the Parent takes custody over client assets.

REMUNERATION

FIL's Remuneration Policy was developed and implemented by its Remuneration Committee.

The Remuneration Committee includes at least three members of the Board of Managers, who are also individuals from the Fisher group of companies (the "Fisher Group"). TheRemuneration Committee is responsible for all aspects of the Remuneration Policy, assessing both the Remuneration Policy and the structure and amount of remuneration on at least an semi-annual basis, and overseeing the determination of remuneration paid to staff.

FIL's Remuneration Code Staff includes those employees, agents and outsourced personnel who are members of administrative or management bodies at FIL or whose professional activities have a material impact on FIL's risk profile.

Remuneration Code Staff who are employees of FIL receive a fixed salary, as well as benefits including a pension or equivalent arrangements and private health insurance. In addition, Remuneration Code Staff who are managers or otherwise responsible for a business unit(s) are eligible for variable remuneration based on metrics designed to encourage the development of a successful team in the business unit for which the Remuneration Code Staff is responsible and take into account the measurable performance of the relevant business unit employees. Bonuses are designed to encourage meeting ongoing measurable targets and are therefore paid out in cash upon attaining targets rather than being deferred unless they are significant.

FIL's Remuneration Policy splits the variable remuneration from the advice process. Specifically, whether to recommend discretionary asset management services, hence the recommended asset allocation, is determined by employees who do not earn commissions or formula-bases bonuses. Further, employees and agents who are eligible to receive commissions/referral fees and/or formula-based bonuses also receive either a fixed salary or call fees that are not contingent upon a client hiring FIL, which forms a substantial portion of their overall remuneration, as appropriate for their roles.

The Remuneration Policy is gender neutral, is consistent with and promotes sound and effective risk management, and is in line with the business strategy, objectives, corporate culture and values, risk culture and the long-term interest of FIL.

In the event of reasonable evidence of employee or agent misbehavior or material error (which may include failure to follow any of FIL's policies and procedures or for conduct exposing FIL to undue conduct or other risk), the Remuneration Committee will determine the extent to which variable remuneration should be reduced or clawed back.

The aggregate remuneration paid to all Remuneration Code Staff by FIL in 2022 was 9.3M €. Of such total remuneration, 1.2M € was fixed remuneration and 8.1M € was variable remuneration. The number of all Remuneration Code Staff was twenty-six.

DIVERSITY AND INCLUSIVITY

The Parent has developed a program that communicates a stated commitment to fostering an inclusive culture, actively developing and supporting diversity, where all feel welcomed and supported, and embodying these values across the Fisher Group as fundamental to long-term success.

Diversity and Inclusion ("D&I") is also addressed through the Firm's Employee Handbook. The Parent has established a D&I team and D&I Advisory Committee, which develop and communicate D&I initiatives across the Fisher Group. The goals established include:

- determination of long term success measures to gauge progress in areas such as recruitment, development, promotions, succession planning and retention;
- improvement at all stages of employee lifecycle, attracting, promoting, and rotating staff; and
- broadening our approach to attract candidates of all backgrounds through analysis of processes, technology, recruiting partnerships and candidate pools.

The objective of the current program is to attract more talent through a broad recruitment pool and to boost participation in career development programs.

The annual Employee Engagement survey provides a source of feedback data. The initiatives are supported by training, including areas such as inclusive leadership development and unconscious bias.

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