Nutmeg.

Pillar III disclosures

31st December 2020

The Financial Conduct Authority is a financial services regulator. It requires us, Embark Services Limited, to give you this important information to help you to decide whether the Nutmeg personal pension is right for you. You should read this document carefully so that you understand what you are buying, and then keep it safe for future reference.

You should be aware that stakeholder pensions are generally available and might meet your needs as well as the Nutmeg personal pension.

Introduction & Purpose

The Capital Requirements Directive ("CRD") of the European Union established a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ("FCA") in its regulations through the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebooks for Banks, Building Societies and Investment firms ("IFPRU and BIPRU"). The CRD implementation is based on three 'Pillars', which form the cornerstones of the process.

- Pillar 1 is the prescribed or minimum capital requirement for an authorised firm to meet its credit, market and operational risk.
- Pillar 2 requires a firm to conduct an assessment known as an Internal Capital Adequacy Assessment Process (ICAAP) that considers risks and uncertainties that are not included in Pillar 1 to determine whether the Pillar 1 capital is adequate to meet its risks; and
- Pillar 3 complements the above and requires a firm to publish certain information about its risks, capital and risk management controls and processes.

The requirements for Pillar 3 disclosures are detailed in the FCA Handbook of Rules and Guidance under BIPRU 11.

This document is designed to meet the Pillar 3 obligations of Nutmeg Saving and Investment Limited ("Nutmeg", "the firm).

Disclosures are required to be made on at least an annual basis (or more frequently if required). Nutmeg is permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information.

In addition, Nutmeg may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

We have made no omissions on the grounds of being immaterial, proprietary or confidential.

Firm Profile

Nutmeg commenced operations in 2011, following authorisation by the Financial Services Authority (which later split into the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA) respectively on 6 October 2011. The firm was previously known as Hungry Finance Limited and changed its name to Nutmeg Saving and Investment Limited on 23 May 2012 to align the firm name with the Nutmeg brand. The firm is authorised and regulated by the FCA and is categorised as a limited license firm for capital adequacy purposes.

The firm is a sole entity and not part of any group.

Risk Management Framework

Nutmeg's Risk Management Framework describes its overarching approach to risk management, setting out its key risks, appetite for each risk, risk management process, governance & monitoring, and review. The Board of Directors and Executive team have considered the strategic, operational, and financial risk categorisations in the context of the risk to corporate objectives, including FCA Statutory objectives, and business plans not being achieved.

The risk management methodology adopted is:

1. Identification of risks consider the probability of that risk materialising and the impact it would have should that risk materialize.

2. Establishment of systems and controls to mitigate and manage these risks.

3. Assessment of the impact should a particular risk materialise, despite the systems and controls in place and allocate capital should this be required.

Risk Management Systems and Techniques

The Compliance and Risk Committee has responsibility to the Board to monitor regulatory compliance and risk management associated with the firm's activities. This Committee meets on a quarterly basis and provides assurance to the Board and senior management that an effective risk management framework is in place.

The firm provides Discretionary investment Management Services (collectively, the 'Services') via its website, whereby many aspects of the Services are automated, including the requirement to assess Suitability of the investment on an individual client basis, which requires the customer to answer a range of questions in respect of their knowledge and experience, appetite for risk, investment objectives and capacity for loss in order that the system may suggest a suitable portfolio for the customer. A review process reviews the customers' risk appetite on an annual basis. ('Simplified Advice').

The firm offers the Services to visitors of the website who accept the website's general terms and conditions ('Visitors'), those that have created a profile ('Registered Users'), and who have also satisfied Customer Due Diligence ('CDD') requirements, as well as those who have explicitly agreed to the terms and conditions of the Services ('Clients').

The firm maintains records of segregated client accounts on propriety software ('SkyNut') integrated with a third-party book of records system. Model portfolios are traded collectively for maximum cost savings to the Clients. Currently, the securities include cash and collective investment schemes (including unit and investment trusts and ETFs in sectors such as commodities and private equity).

The firm offers five main account types, four of which are treated separately with respect to UK tax legislation and are therefore sometimes referred to as 'tax wrappers'. These are Individual Stocks & Shares Account ("ISA"), Lifetime Individual Stocks & Shares Account ("LISA"), Junior ISA ("JISA") and Personal Pension ("SIPP") accounts. A General Investment Account ("GIA") is also available to customers.

For each of these account types, two main styles of investment have been offered – fixed allocation or fully managed. These are priced accordingly with the latter requiring greater involvement of the firm's investment function to manage the portfolios' asset distribution. In 2018 a further investment style was added, 'Socially Responsible Investing' enables customers to choose to invest in a basket of securities which has a higher rating in terms of environmental, social and governance metrics as determined by a global leader in the provision of indexing services. In November 2020, the firm added a fourth investment style to its suite of model portfolios, Smart Alpha portfolios, powered by JP Morgan Asset Management.

There are several risks that management and the Board must consider and manage as part of the operation of Nutmeg's business:

- Strategic Risk: The risks associated with achieving the firm's business plan objectives within theplanned time horizon and beyond.
- Regulatory Risk: The firm's reputation and customers' confidence can only be maintained if the firm maintains the highest ethical & control standards. Regulatory risk encompasses inter-alia, compliance with conduct of business rules and principles, mitigating financial crime risk, as well as the protection of customer assets.
- Technology Risk: The risk of failure to assure quality and maintain service levels in the delivery of digital wealth management services, as well as cyber and data security risk.
- Investment Risk: The firm's Investment Team, in accordance with certain parameters set down by the firm's investment policies and overseen by the appropriate committee and governance framework, is empowered to take risk in order to generate returns on customer assets.

Apart from the major risks that have been considered above, the firm is exposed to the following:

Credit Risk

The firm does not extend credit to its clients.

The firm holds its working capital accounts at a reputable credit institution, and the credit risk on these exposures is considered as very low. The firm follows the simplified standard approach to credit risk.

Market Risk

The firm does not take proprietary trading positions. The firm also does not have any significant foreign exchange exposures. Market risk is therefore deemed to be a minimal risk.

Other Operational Risks

The firm carries out a prudential risk assessment, representing an enterprise-wide assessment of all significant operational risks faced by the firm. The controls environment is assessed and a risk appetite for each specific risk has been considered. The total capital held against operational risk is £6.9m

Wind Up

The firm has considered, and maintains capital resources beyond those required to facilitate an orderly wind up of the business and ensure customers are not adversely impacted by the failure of the firm. The smooth exit from the provision of regulated activities is the key priority to a successful wind down.

The firm's total capital resources as at 31st December 2020 are comprised as follows:

	£m
Total Tier 1 capital	28.7
Total Tier 2 capital	0.0
Total capital resources,	28.7

Capital Requirement and compliance with Pillar I & II

Our overall approach to assessing the adequacy of our internal capital is set out in our Internal Capital Adequacy Assessment Process.

The individual capital requirement for the firm is £11.7m and has been determined using the Fixed Overhead Requirement and ICG% multiple (253%). It should be noted that this requirement is higher than both the firm's Pillar II assessment (including scalar) and wind-up capital requirement.

The firm is also satisfied, through its risk management framework and stress tests, that the firm has sufficient capital resources to withstand the stipulated stresses.

Remuneration

The firm is required to comply with the FCA Remuneration Code such that its policies and procedures around remuneration are consistent with and promote sound and effective risk management. As an IFPRU Limited License firm Nutmeg may apply the code in a proportionate manner in consideration of the nature, scale & complexity of its business.

Remuneration Committee

The Board of Directors has established a Remuneration Committee which operates in accordance the proportionality guidance referred above.

This committee has responsibility to ensure that the firm has a risk-focused remuneration policy for the fair remuneration of Code Staff which are defined under the Remuneration Code and which is consistent with and promotes effective risk management and does not expose the firm to excessive risk. This includes reviewing and recommending the remuneration arrangements for Directors and other members of senior management. In addition, the committee would approve the establishment of any pension, bonus, profit sharing or other incentive scheme or plan for Directors as well as employees of the firm.

The Remuneration Committee will meet on an ad hoc basis and is governed by formal Terms of Reference, which are reviewed annually. The Remuneration Committee is comprised of three independent non-executive directors (including the non-executive Chairman of the firm).

Nutmeg has identified 14 Code Staff in total for the year ending 2020. Code Staff received aggregate annual salary of £1.75m and aggregate variable remuneration of £0.5m. An employee share option scheme is in operation for selected employees and directors. The option scheme is designed to reward these employees and directors on the long-term performance of the firm.

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Nutmeg is an online investment management service, providing diversified investments, ISAs and pensions in the UK.

To learn more go to **nutmeg.com**

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