Investment Firms Prudential Regime Disclosures

Nippon Life Schroders Asset Management Europe Limited (NSAMEL)

For the year to 31 December 2023

Schroders

Contents

1. Introduction

1.1 Scope

This document sets out the disclosures, as at 31 December 2023, that apply for Nippon Life Schroders Asset Management Europe Limited (‘**NSAMEL**’ or ‘**the entity’**). The disclosures are made in accordance with MIFIDPRU 8 as they apply for non-small non-interconnected (non-SNI) investment firms.[1]

The disclosures have been prepared in line with the governance policy and process agreed by the legal entity board. This document discloses information on the entity’s risk management objectives and policies, governance arrangements, own funds, and remuneration policies and practices.

The disclosures are published alongside the entity’s Annual Report and Accounts (**ARA**) and are produced on an annual basis. They are not subject to audit and have been produced solely for the purposes of satisfying the MIFIDPRU 8 regulatory requirements. Additional relevant information can be found in NSAMEL’s ARA, which is available on the Schroders corporate website (Subsidiary disclosures | Schroders global).

1.2 Business overview

NSAMEL is a subsidiary of Nippon Life Insurance Company and a joint venture (JV) between Nippon Life and Schroders in which Schroders has a 33% shareholding.

NSAMEL provides Nippon Life Group with investment management and advisory services. Whilst the entity manages the process by which investment decisions are made, it utilises certain elements of Schroders’ investment infrastructure and other Schroders Group companies in order to manage the entity's assets efficiently, with minimal operational risk and in a framework that is compliant with local regulations as well as industry best practice. Schroders Group support is facilitated through two of Schroders’ subsidiary companies: Schroders Investment Management Limited (**SIM**), and Schroder Unit Trusts Limited (**SUTL**).

SIM is Schroders’ principal provider of investment management and advisory services. SIM provides NSAMEL with an asset management operating platform and infrastructure support.

SUTL is Schroders’ principal manufacturer and manager of investment funds and is Schroders’ main UK alternative investment fund manager (**AIFM**) of authorised and non-authorised alternative investment funds. SUTL is the appointed AIFM for the Cayman Funds. While it delegates the investment management function to NSAMEL, which is the Investment sub-Manager, both SUTL and NSAMEL retain oversight responsibilities.

To support the entity’s principal business activities, three key Group functions within Schroders supply services to the JV:

i. Investment Research – via SIM, whereby Schroders provides company research information and market data

ii. Investment Operations – via SIM, whereby Schroders provides portfolio administration, data maintenance, trade processing, performance measuring and portfolio reporting services; and

iii. Fund Administration – via SUTL, whereby Schroders provides oversight of third party outsourced service providers involved in the Cayman Funds, e.g. custodians and administrators, on behalf of the entity

For more details please refer to the NSAMEL ARA.

1.3 Regulatory framework

NSAMEL is supervised in the United Kingdom (UK) by the Financial Conduct Authority (**FCA**) under the Investment Firm Prudential Regime (IFPR). The IFPR is a bespoke prudential regime for UK investment firms, implemented through a sourcebook incorporated into the FCA Handbook, the Prudential Sourcebook for MiFID Investment Firms (**MiFIDPRU**).

[1]NSAMEL is a non-SNI as It is part of an investment firm group (IFG) which together does not meet the criteria set out in MIFIDPRU 1.2.

2. Governance arrangements

2.1 NSAMEL governance framework

A shareholders agreement (**SHA**) between the entity, Nippon Life and Schroders is the principal governance document for the JV, supplemented by a number of service and investment management agreements. The entity operates within a robust governance framework consistent with the terms of the SHA and complies with local regulatory requirements.

2.2 Governance

The board of directors (Board) is collectively responsible for implementing the entity's strategy and overseeing operational performance in order to deliver the objectives of the JV. The Board's exercises independent judgement and powers in its decision-making. Its role is to provide oversight rather than day-to-day management, which is delegated to the entity's Chief Executive, who manages performance of the entity's activities.

To discharge its responsibilities, the Board scrutinises and constructively challenges regular management information from its Chief Executive and senior managers across key business, support and control functions within Schroders that supply services to the JV. The Board meets quarterly to review this management information and ad hoc Board meetings can be convened as required. Whilst the Board has autonomy in its decision-making, the SHA sets out certain strategic and operational decisions that are reserved to the shareholders for their approval.

The Board's directors comprise senior individuals from Nippon Life Group, each of whom has relevant investment or asset management experience, and senior individuals from Schroders.

2.3 Board committees

NSAMEL has not constituted any other board or management committees.

2.4 Directorships

As at 31 December 2023, the members of the Board held the following directorships (excludes directorships of other Group companies and companies that have mainly non-commercial objectives):

Director	Executive directorship	Non-executive directorships
Kazuo Okushima	–	–
Koji Oshima (resigned 25 March 2024)	–	–
Paul Forshaw	–	–
Chris Sandum	–	–
Shinichi Okamoto	–	10
Takeru Maki	–	–

2.5 Directors' conflicts of interest

Directors are expected to avoid conflicts of interest with their role on the Board and are obliged to declare any conflicts. Procedures to manage conflicts are set out in Schroder's Conflicts of Interest Policy.

2.6 Policy on promotion of Board diversity

The NSAMEL Board are required to adopt a policy on promoting diversity. The Board recognises the importance of diversity and that it is a wider issue than gender and ethnicity. The Board has adopted the policy below:

- In selecting directors for Board appointments, the Board look for diversity of thought, driven by factors such as skills, experience and background, which are important for an effective Board. For Nippon Life directors, the Board inherently draw upon senior individuals who have relevant investment or asset management experience and for Schroders' directors, senior individuals who are responsible for key business areas, aligning the appointments with the selection of Senior Manager Functions under the FCA's Senior Managers and Certification Regime
- These factors will continue to be the primary criterion by which candidates for Board positions are selected. The Board understands the importance of increasing diversity and is committed to ensuring its composition is diverse and evolves over time, noting that appointments are based on merit

The Board has applied the above policy on promotion of Board diversity during the year under review.

3. Risk Management objectives and policies

3.1 Risk management framework

The NSAMEL Board is responsible for risk management within their entity. In order to manage risk, they align with the Schroders Group Risk Management Framework (**RMF**). The framework has been designed in order to allow management to identify, manage, and escalate risks.

NSAMEL maintains a prudent and effective system of internal control and risk management. NSAMEL assesses the most significant risks facing the business, including using quantitative exposure measures, such as stress tests, where appropriate. NSAMEL embed risk management within all areas of the business, with oversight from the NSAMEL Board, the Schroders Group and the Nippon Life Group. SIM provides support in line with the Services Agreement (SLA).

A Risk report summarising all material investment risk matters relevant to the entity is presented to the entity Board on a quarterly basis. Other potential risks and risk events are reported to the Board, the Schroders Group and the Nippon Life Group, as appropriate.

Three lines of defence

NSAMEL operates in accordance with the three lines of defence. The first line of defence in managing and mitigating risk is the business functions themselves and the line managers. They are also supported by relevant staff in Nippon Life Group. NSAMEL identifies potential risks and, implements and maintains appropriate controls to manage these risks, by applying a Risk and Control Assessment process.

Line management is supplemented by oversight functions within Schroders and Nippon Life Group, including Risk, Compliance, Legal, Governance, Finance, Tax and HR, which constitute the second line of defence. Internal Audit within Schroders and Nippon Life Group provide retrospective, independent assurance over the operation of controls and forms the third line of defence.

Risk identification and material risk assessment

NSAMEL has conducted an assessment of the most significant risk facing the business, including those that arise through the services supplied by SIM and SUTL. This is based on the Group's internal key risks which are all relevant to NSAMEL, but some are inherently material based on the entity's core business activities and operating model. Risks are assessed based on their potential inherent impact and without consideration to the control environment in place. This process helps to set out the risk profile of the entity which supports the Internal Capital Adequacy and Risk Assessment (**ICARA**) harm assessment; focusing on material harms to the clients, the firm and the market. The material risk assessment is presented to the NSAMEL Board for review and comment.

Table of NSAMEL material risks

Strategic risks	Business risks	Operational risks
Market returns	Business concentration risk	Business services resilience risk
	Investment performance risk	Operational Process risk

A summary of these risks and the potential harms that can arise, together with how they are managed and mitigated, reducing the potential for harm, is shown in appendix 1.

Business strategy and risk

NSAMEL's business strategy reflects the objectives set out in the SHA and is reported on in the Chief Executive's quarterly report. NSAMEL identifies, monitors and manages risks including the potential risk of harm arising as a result of its business strategy, which is reviewed at least annually as part of the ICARA process.

Risk appetite

Risk appetite statements are set by the NSAMEL Board which reflect the harms identified in the NSAMEL ICARA. Each risk appetite statement is supported by a number of metrics, tolerances or early warning indicators to enable NSAMEL to provide an assessment of risk position against risk appetite. Regulatory thresholds and limits are considered as required, throughout this process. The risk appetite process is owned by the Board and is facilitated by the Schroders Group Risk function, with input from stakeholders throughout the firm.

A rating system is used to determine the current status of business against the risk appetite set by the Board. The NSAMEL Board is informed if risks are outside appetite alongside mitigating measures and actions established by senior management.

4. Own funds position

4.1 Composition of own funds

The table below sets out the composition of the entity's own funds as at 31 December 2023, taking into account the entity's audited financial position and any foreseeable dividends[2]. The entity's own funds are exclusively comprised of CET1 capital items and consist entirely of paid up capital instruments and retained earnings.

No.	Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statement
1	**OWN FUNDS**	**4,492**	**Note 10**
2	**TIER 1 CAPITAL**	**4,492**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**4,492**	
4	**Fully paid up capital instruments**	**1,750**	
5	Share premium	–	
6	Retained earnings	2,742	
7	Accumulated other comprehensive income		
8	Other reserves		
9	Adjustments to CET1 due to prudential filters	–	
10	Other funds	–	
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	–	

4.2 Reconciliation of regulatory own funds to the balance sheet in the audited financial statements

This section shows NSAMEL's balance sheets as per their audited financial statements. This can be used to show further detail of the components of capital in section 4.1. Column c refers to the row in the corresponding entity table in section 4.1 that the balance sheet item relates to.

Amount in GBP (Thousands)		a. Balanced sheet as in published/audited financial statements As at 31 December 2023	b. Under regulatory scope of consolidation As at 31 December 2023	c. Cross reference to template OF1
Assets				
1	Cash and cash equivalents	3,362		
2	Current tax	21		
3	Trade and other receivables	2,045		
	Total Assets	**5,428**		
Liabilities				
1	Trade an other payables			
	Total Liabilities	**936**		
Shareholders' Equity				
1	Share capital	1,750		4
2	Retained earnings	2,742		6
	Total Shareholders' Equity	**4,492**		

[2]NSAMEL discloses its regulatory own funds position in its ARA. The own funds position disclosed in the entity's ARA excludes audited profits.

5. Own funds requirements

5.1 K-factor requirement and fixed overheads requirement

The K-factor requirement calculates a minimum amount of capital that an investment firm needs to hold in order to support its ongoing activities. The fixed overheads requirement (**FOR**) calculates a minimum amount of capital that an investment firm needs to hold in order to conduct an orderly wind-down. Section 5.2 sets out the approach to assess whether additional own funds are required to be held in order to ensure compliance with the overall financial adequacy rule (**OFAR**).

The K-factor own funds requirements are a mixture of activity- and exposure-based requirements. Which K-factors apply to an individual firm depends on the services and activities it undertakes. The FOR is equal to one quarter of the entity's relevant expenditure in the previous year, using the most recent audited annual financial statements. The approach requires firms to determine total expenditure. Firms may then deduct certain variable expenses such as fully discretionary staff bonuses and shared commission and fees payable (subject to meeting certain conditions).[3]

As described in section 1, NSAMEL is reliant on SUTL and SIM for the provision of fund management and investment management services. As the fund manager, SUTL holds capital against the relevant AUM. NSAMEL act as the sub-investment manager responsible for investment decisions and advice and passes trade processing and execution activities on to SIM. Therefore SIM holds K-COH for the relevant AUM. As a result, the entity's K-factor requirement is 0.

The table below show the entities' K-factor requirements, broken down into three groupings as required by MiFIDPRU 8.5, and their FOR as at 31 December 2023.

Item		Total amount in GBP (thousands)
K-factor	∑ K-AUM, K-CMH, K-ASA	–
	∑ K-COH, K-DTF	–
	∑ K-NPR, K-CMG, K-TCD, K-CON	–
K-factor total		**–**
FOR		**710**

5.2 Approach to assessing adequacy of own funds

NSAMEL assesses and manages the adequacy of own funds in accordance with the MIFIDPRU rules and to ensure compliance with the OFAR. Through the ICARA process the entity assesses whether any additional own funds and liquid assets required, compared to the minimum amounts set out above.[4] The level of own funds and liquid assets required in order to meet the OFAR are referred to as the own funds threshold requirement (**OFTR**) and liquid assets threshold requirement (**LATR**) respectively.

The ICARA is the core risk management process for FCA investment firms and its purpose is to ensure that a firm:

a. Has appropriate systems and controls in place to identify, monitor and, where proportionate, reduce all potential material harms that may result from the ongoing operation of its business or winding down its business; and

b. Holds financial resources that are adequate for the business it undertakes

In turn, the requirement for adequate financial resources is designed to achieve two key outcomes:

a. To enable a firm to remain financially viable throughout the economic cycle, with the ability to address any potential material harms that may result from its ongoing activities (including both regulated activities and unregulated activities); and

b. To enable the firm to conduct an orderly wind-down while minimising harm to consumers or to other market participants, and without threatening the integrity of the wider UK financial system

As part of the development of the ICARA NSAMEL identified, assessed and quantified potential harms to clients, markets and the firm itself arising from its business model and to support ongoing activities. Where a material risk of harm was not

[3]The shared commission and fees payable must be directly related to commission and fees receivable, and the payment of the commission and fees payable must be dependent on the actual receipt of the commission and fees receivable.

[4]The minimum liquidity requirement is set at one third of the FOR and is known as the basic liquid asset requirement (BLAR).

fully mitigated by the risk management framework, NSAMEL assessed the level of capital and liquidity which should be held to mitigate the residual risk of harm.

NSAMEL also assessed the level of capital and liquidity which would be required to support a wind-down. Reverse Stress Tests were conducted in order to understand the extreme conditions that have the potential to create an environment where the firm is no longer viable. NSAMEL assessed the potential impact of a wind-down together with detailed operational considerations. The ICARA then considered the financial resources that would be required in order to fund the cost of a wind-down. This was then compared to the FOR to determine if any additional resources are required to be held.

The higher of the assessments of capital and liquidity required for on-going operations and wind-down were determined to be the entity's OFTR and LATR.

The ICARA also uses a range of scenarios to assess the impact of severe but plausible stress events on capital and liquidity resources and regulatory capital and liquidity requirements. The stress testing analysis is used to determine the appropriate size of any capital and liquidity planning buffers that should be held over and above the entities OFTR and LATR.

A set of Early Warning Indicators are designed to identify emerging periods of stress. They prompt consideration of the nature and severity of the stress event and the potential impact on the entity. Recovery Indicators are separately set to identify when the entity is running into capital and/or liquidity difficulties and approaching a recovery situation, with triggers set at a level to provide adequate time to take action.

The NSAMEL ICARA was approved by the Board during 2023. NSAMEL confirmed that it has sufficient capital and liquidity resources to meet its OFAR. The ICARA will be updated and formally reviewed by the Board on at least an annual basis, with more frequent reviews in the event of a fundamental or anticipated change to the business or the environment in which the entity operates.

6. Remuneration policies and practices

6.1 Remuneration governance

NSAMEL does not employ any staff. Employees who provide services to the entity, including members of the NSAMEL Board, are employed by Nippon Life Insurance Company or Schroders Group entities, and are not remunerated directly by NSAMEL. Certain Nippon Life employees are also seconded to NSAMEL, and the terms of their remuneration are governed by the SHA.

The Board of NSAMEL is responsible for the adoption of any arrangements applicable to NSAMEL and ensuring NSAMEL remuneration policies and practices are compliant with the relevant regulatory requirements. The remuneration of Nippon Life and Schroders employees is determined in line with the governance arrangements of Nippon Life Insurance Company and Schroders Group respectively, as outlined below.

Nippon Life Insurance Company

Nippon Life Insurance Company has established a Nomination and Remuneration Advisory Committee, which is a consultative body to the Board of Directors that deliberates on matters relating to the appointment, dismissal, and remuneration of directors (excluding Audit and Supervisory Committee members) and executive officers. The Committee is made up of external directors, the chairman and the president, and a majority of its members, including its chairman, are independent external directors. The development of the firm-wide corporate governance system, including matters relating to remuneration, is overseen by the Board of Directors.

Schroders Group

The Schroders Group has a Group Remuneration Committee, consisting of independent non-executive Directors of Schroders plc, which provides firm-wide remuneration oversight. The Schroders remuneration report on pages 74 to 93 of the Group's 2023 Annual Report and Accounts (available on the Group's website – Subsidiary disclosures | Schroders global) provides information on the role, activities and composition of the Group Remuneration Committee.

6.2 Remuneration structure

In line with the terms of the SHA, certain material risk takers (MRTs) are seconded by Nippon Life Insurance Company to NSAMEL. These individuals remain employees of Nippon Life and receive fixed remuneration from Nippon Life that is aligned to appropriate market levels for their roles. They may also receive variable remuneration, which is dependent on the performance of Nippon Life and not determined by the performance of NSAMEL.

NSAMEL MRTs who are employed by Schroders Group receive fixed remuneration (comprising salaries and benefits in kind), which does not vary with performance, and are eligible to be considered for an annual bonus award each year. Bonuses for Schroders employees take account of overall Group, team and individual performance against agreed objectives, and are not determined or awarded by NSAMEL. Further information on Schroders remuneration policies and practices can be found in the Schroders disclosure for MiFIDPRU investment firms: IFPR Disclosures (schroders.com).

6.3 Malus and clawback terms

While no variable pay is awarded to any MRT in relation to NSAMEL, all variable remuneration awarded to those MRTs who are Schroders Group employees is subject to the Schroders Group Malus and Clawback Policy. Under malus terms, deferred remuneration awards may be reduced or lapsed at the Group Remuneration Committee's discretion. Under clawback terms, amounts paid or released from such awards may be recovered for a period of 12 months from the date of payment or release at the Committee's discretion. These terms can be used to risk-adjust deferred remuneration awards in a range of circumstances, set out in the Group Malus and Clawback Policy.

6.4 Identification of Material Risk Takers ('MRTs')

The following roles have been identified as MRTs for NSAMEL:

- Senior management, including Board members and SMF role holders
- Employees in control functions (Risk & Compliance and Internal Audit) who have oversight responsibility
- Employees responsible for performing key functions, such as prevention of money laundering and information security

Certain senior management roles within Schroders Group, such as members of the Group Management Committee, have also been identified as MRTs for NSAMEL due to their activities having a material impact on the risk profile of the Schroders entities which provide services to NSAMEL (SIML and SUTL).

6.5 Quantitative disclosures

NSAMEL had no employees during the financial year. Staff who are engaged in its business have contracts of service with and are remunerated by a Nippon Life or a Schroders Group company. The total number of MRTs identified in the year was 36, including employees of Nippon Life seconded to NSAMEL, as well as employees of Schroders who have NSAMEL-specific responsibilities or broader senior management roles. All NSAMEL MRTs are employed and remunerated by Nippon Life Insurance Company or Schroders Group entities. No remuneration is determined or awarded by NSAMEL.

Appendix 1 Summary of NSAMEL material risks and mitigation

The below table summarises NSAMEL's material key risks and corresponding mitigation, based on the Group's Risk Management Framework.

Key risk	Mitigation
Business concentration risk	
Insufficient diversification in distribution channels, products, clients, markets or income streams could pose a risk to our business.	NSAMEL's business model involves providing the Nippon Life Group with investment management and advisory services for a specific range of products. Concentration risk is mitigated by maintaining open lines of communication with all stakeholders, including employees, Nippon Life Group, and regulators.
Business services resilience risk	
The risk of being unable to operate important business services in the event of a severe disruption. Therefore, there is the risk that we do not have sufficient processes in place to ensure that we can effectively continue to operate or recover our important business services in the event of a severe disruption at a third party, to a system, or to the availability of data	We have launched a Group-wide operational resilience programme which has resulted in us gaining a better view of our important business services. This enables us to focus our resources and priorities on ensuring our business services are robust. Our crisis management, business continuity and disaster recovery processes are tested regularly to ensure that we can respond and recover from extreme events. NSAMEL's principal business activities and processes are supported by various Group functions that operate within the above business resilience framework.
Investment performance risk	
There is a risk that portfolios may not meet their investment objectives or that there is a failure to deliver consistent and above-average performance. There is a risk that clients will move their assets elsewhere if we are unable to outperform competitors or unable to deliver the investment objectives. The higher interest rate environment can impact clients' performance expectations and our ability to meet them and may require adjustments within strategies. Strong investment performance is critical to the success of Schroders.	NSAMEL has clearly defined investment processes designed to meet investment targets within stated parameters, which are subject to independent review and challenge. Oversight of both risk and performance is embedded in the Group's business processes and governance, which also applies to NSAMEL.
Market returns risk	
Our income is mainly derived from the value of the assets we manage. Falling markets reduce our AUM and therefore impact revenues. Market falls may be exacerbated by geopolitical risks, for example in response to the situation in Ukraine and the Middle East which remains heightened. Foreign exchange rates are a key factor in our financial performance as we are sterling denominated with earnings in other currencies. In addition, economic uncertainty and geopolitical developments presented a risk in 2023. The impact of higher inflation on interest rates, wages and economic growth could impact asset prices and markets, as could an acceleration of climate risk, leading to a fall in AUM. Throughout 2023 market conditions continued to be challenging so this risk remains at the same level reported in previous years.	The Group has diversified income streams across a range of markets to mitigate a considerable fall in any one area. Focus on growing the product range and investment capabilities allows us to have a broader range of income streams which are less directly linked to markets. Whilst NSAMEL's income is primarily generated through investment management activity, it also earns revenue from advisory services.

Key risk	Mitigation
Operational process risk	
The risk of failure of significant business processes, such as compliance with fund or mandate restrictions, fund pricing, trade execution for investment portfolios and client suitability checks, whether these occur within Schroders or appointed third parties. It includes operational integration of acquisitions as there may be some risks while newly acquired firms are operating on different platforms, and before they are fully aligned to Schroders' policies. It also includes the ineffective management of joint ventures and associates.	When we undertake change within the Group, we assess new processes that may arise. We have a well-established process to assess the risks within our supply chain. We review suppliers throughout the supplier life cycle to identify potential risks which may impact the quality or continuity of service. NSAMEL's key business processes are reviewed regularly, and the risks assessed through the Risk and Control Assessment (RCA) process. Operational risk events are reviewed to identify root causes and implement control improvements.

Schroders