Pillar 3 Disclosure for Aon Investments Limited

Year ended 31/12/2021

Preparation Date: September 2022

Contents

1 Executive Summary

Purpose

All Financial Conduct Authority (FCA) regulated firms within the scope of the Capital Requirements Directive (CRD) are required to undertake an Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP serves to validate the appropriateness of the firm's regulatory capital requirement, to ascertain if its capital resources are sufficient in relation to the risk profile of the business and to assess the appropriateness of the firm's framework for managing risk.

The Financial Conduct Authority requires firms to establish capital adequacy, governance, and disclosure requirements to be implemented using a three-pillar framework:

Key themes and areas for discussion will include:

1. Pillar 1 sets out the minimum capital requirements that we are required to meet as a regulated financial service firm;
2. Pillar 2 requires us, and the FCA, to take a view on whether additional capital is required to be held against risks which may or may not be covered by the regulatory capital required under Pillar 1; and
3. Pillar 3 requires us to publish certain details of our capital, risk management processes and governance

Aon Investments Limited (AIL) embraces these concepts as they fit comfortably with the firm's approach to regulatory issues and risk management.

This Pillar 3 Disclosure for AIL effectively makes the key findings of the ICAAP and the thought processes behind the document, publicly available. The contents of this document are required to be published at least annually, in line with AIL's statutory accounts. In conformity to guidelines established by the Financial Conduct Authority and other relevant regulatory bodies, some disclosures may be omitted on the grounds that they are non-material, confidential or proprietary.

The FCA's new Investment Firm Prudential Regime ('IFPR') came into force on 1 January 2022 and our future disclosures will be made in accordance with these new rules. Pillar 1 calculations will be replaced with the own funds requirements set out in MIFIDPRU 4. Pillar 2 becomes the Internal Capital and Risk Assessment Process ('ICARA').

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Background and Scope

Aon Investments Limited (AIL) is wholly owned by Aon Solutions UK Ltd (ASUKL). AIL is subject to the CRD and as such, it has produced this ICAAP in accordance with the relevant prudential rules for banks and investment firms ('BIPRU'). AIL is a BIPRU 'Limited Licence' 50k firm with a MiFID activity restriction and as such calculates its Pillar One capital requirement as the greater of its fixed overhead requirement (plus its PII Cover Requirement) and the sum of its credit and market risk requirements.

It calculates its overall capital requirement figure as being the larger of its Pillar one figure, its Pillar 2 figure and its wind down requirement figure (see section 6 for more details in this regard).

AIL was established with the sole purpose of providing fiduciary management services to UK pension funds. As a consulting firm with a long heritage of providing investment advice to pension funds, Aon recognised that many trustees of pension schemes found the governance burden of managing the investments of their scheme efficiently, dealing with multiple fund managers, assessing new asset classes and implementing changes when necessary, too onerous, leading to many schemes adopting 'simple' but less than optimal investment strategies. AIL was set up as a fund management business specifically to address the need for pension schemes to have more holistic management of assets and liability risks. AIL is therefore the Aon business in the UK that has the regulatory permission to manage investments.

The disclosure provided here relates to AIL only and not to any other businesses Aon Plc may operate in the UK.

3 Approach to Risk Management

The Board of AIL takes responsibility for ensuring that the risk management framework that has been implemented is appropriate for the risks faced and taken on by the business.

The Board is responsible for defining AIL's strategy and risk appetite. The maintenance of a strong capital base is considered essential by AIL's Board. There is adequate challenge, governance and oversight through AIL's risk management and Board committees. Senior Managers in the risk and compliance area hold relevant senior management functions and their advice is sought in the remediation and mitigation of key risks faced by the business as well in the continuous enhancement of the risk management framework, controls and processes.

The Board considers these financial measures to be adequate in line with AIL's risk profile, overall business strategy and operating model. The Board is comfortable that the risk management framework is fit for purpose, is aligned to any changes in the business or market in which AIL operate and to the financial profile at any point in time.

4 Stress Testing and Scenario Analysis

An assessment takes place of the Group's potential risks, taking the form of stress testing, scenario analyses and consideration of their impact on future revenues and costs. It is carried out on at least an annual basis and incorporates the effects of both wider macro-economic issues and more local AIL-specific issues. The financial impact of risks crystallizing is considered against both the liquidity of the business and its capital adequacy.

The results of the above stress testing identified that in the extreme case of a number of separate eventualities occurring simultaneously a capital requirement figure of £6,848,000 was applicable. This is the firm's Pillar 2a capital requirement. As the Pillar 1 figure is projected to be £8,975,000 by the end of 2021, AIL's overall requirement figure is therefore its Pillar 1 figure which will fluctuate on an ongoing basis so should not be regarded as always being the figure stated above.

Although the necessity for winding up AIL is considered extremely unlikely, consideration of the operational and financial process in winding up the business has been considered in addition to the above stress tests. The conclusion was that the wind-up cost would not exceed the Pillar 2a or Pillar 1 capital requirement figure.

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Capital Resources

Risk type	Total (£k)*
Balance Sheet risk (Credit, Operational & Market risks)	1,503
Fixed Overhead Requirement (FOR)	6,489
PII Cover Requirement*	2,486
Aggregated Result**	**8,975**
Current capital resource available	27,834
Capital surplus	**18,859**

Based on projection for year ending 31 December 2021

*Aggregated result is the higher of Balance sheet risk and FOR plus PII cover requirement.

Requirement	Total (£k)*
Pillar 2a Requirement (also held for 2b)	**6,848**
Capital resource available	27,834
Capital surplus	**20,986**

AIL's Pillar one requirement is £8,975,000

AIL's Pillar 2a requirement is £6,848,000

AIL's overall requirement figure is therefore currently its Pillar 1 figure which will fluctuate on an ongoing basis so should not be regarded as being the figure stated above.

AIL had capital resources of £27,834,000 as at the end of 2020 and therefore maintains a surplus of £18,859,000 which represents a significant buffer over the capital requirement and within the firm's risk appetite. This is considered sufficient for the time being but will be kept under regular review by the business.

These conclusions may be seen as a reflection of the underlying strength of the business and also of the nature of the investment management industry in general, which is not balance sheet-driven in the same way as deposit-taking financial institutions are.

AIL has no direct exposure to market movements, as it is does not trade on its own account. The primary risk is volatility of earnings in respect of assets under management. This risk is mitigated by the variability of the cost base, which considered alongside the strength of AIL's Balance Sheet, indicates little chance of the capital base being eroded by negative earnings.

6 Contingency Funding

During the early part of AIL's existence it was totally reliant on its parent company for funding. As the business grew, this reliance was eradicated and AIL is now self-sufficient and profit making.

In the longer term, the business has been designed as one that can continue to be financially self-supporting. It needs external services (such as medium-term asset allocation advice, manager research, risk/liability modeling, etc.) that, while currently being supplied by ASUKL, could as easily be supplied by any other provider. This means that if ASUKL or ASUKL's parent were to decide on a different strategic direction, the business model is one that, given time to arrange the provision of these services from a third party or bring them in-house, could survive on its own.

Ultimately, the level of capital held under the Pillar 1 requirement figure is sufficient for an orderly wind-up if such a situation was necessary.