

threesixty

December 2016

# Quilter Cheviot Assessment Report



# Quilter Cheviot

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## Purpose of this Assessment Report

This report is designed to assist intermediaries in carrying out their due diligence assessment prior to using the services of a discretionary fund manager (DFM), and on the regular review of such arrangements.

It is important to note the aim of the work undertaken by threesixty services LLP (threesixty), is to assess, at a high level, the adequacy of the controls and procedures the firm has established to mitigate the regulatory and business risks arising from the provision of its discretionary management service to intermediaries. The focus of the assessment is to review controls and procedures, and therefore it is only part of the overall assessment that an intermediary should carry out when looking to use the services of a DFM.

## Due Diligence: What is it, and why is it so important?

Research and due diligence is seen as one of the three pillars of ensuring delivery of good outcomes and advice to clients i.e.

1. Competence: ensuring advisers are competent on the subject of the product or service concerned.
2. Research and due diligence: the FCA uses these terms to refer to the processes used to assess:
  - a) The nature of the product or service e.g. both investment structure and performance
  - b) The risks and benefits
  - c) The provider – to establish whether it is appropriate to entrust the provider with client assets
3. Assessing suitability: where advisers are competent and understand the individual products or service, they should be able to assess for each client if the solution is suitable.

In relation to looking at any services to be provided by a DFM, intermediaries need to understand the above factors in order to assess whether the proposed solution is suitable for their clients.

In early February 2016 the FCA issued its findings following a thematic review into firms' research and due diligence processes ([FCA - TR16/1: Assessing suitability: Research and due diligence of products and services](#)). It has provided some useful pointers for firms on what helps to ensure appropriate research and due diligence processes are in place. The review covered how firms select products, funds, platforms as well as the services of DFMs.

Whilst the FCA's findings are high level comments, the particular references that have relevance to the assessment of discretionary management services are as follows:

1. The key driver of good research and due diligence is a corporate culture of challenge. The FCA commented "The better firms had either in-built challenge in the process and/or individuals who were knowledgeable, enthusiastic and challenged the firm's approach. Where there was no culture of challenge within the firm, the research and due diligence process showed weaknesses".
2. The size of a firm is not a barrier to carrying out good research and due diligence.
3. Processes and tools used in research and due diligence will vary depending on the circumstances, and the FCA does not set out specific requirements. The emphasis is on the firm to take reasonable steps to ensure the solutions are suitable for their clients.
4. Research and due diligence needs robust systems and controls in order to be effective.
5. Firms need to be structured in their research and due diligence process in order to ensure that information is up to date and challenged adequately.
6. Research and due diligence should be an objective process and "not a case of retro-fitting due diligence to justify the outcome the firm had already previously decided upon."

## The Due Diligence Process

As noted previously the FCA has not set out a defined process for firms to follow when assessing the services of a discretionary fund manager. The approaches taken will vary in different circumstances, and to a large extent are influenced by the type of service the intermediary is seeking from the DFM. It is also possible that the solutions you identify for your clients may involve the services of more than one DFM. However, whether you are seeking to merely refer your clients to a DFM and chose to let them take responsibility for the suitability of advice, or you intend to advise your clients on a model portfolio operated by the DFM, in which you take responsibility for the suitability of advice, the process should encompass the following stages:

1. Define why you need a DFM
2. Set out the key criteria by which you will assess the DFM
3. Identify and list the DFMs that you will research
4. Reduce/filter the list based on your key criteria
5. Gather information – multiple sources and of various types e.g.
  - Companies House/ FCA register checks
  - Accounts
  - Website and other internet information
  - 3rd party reports e.g. threesixty, ARC
  - Research databases e.g. Defaqto
  - DFM's own material – Due Diligence packs or brochures
  - A due diligence questionnaire sent to the DFM
6. Meet the shortlist of firms
7. Decide on which one or more DFMs to use – document why and the approval process followed by your firm's senior management
8. Monitor and record performance of the DFM(s)
9. Periodic review of DFM(s) and report findings to senior management

It is important to document each stage of the process so that you are able to demonstrate the process if called upon to do so.

## The threesixty Assessment: Our Methodology

The assessment consists of a combination of an onsite visit to the DFM which generally takes 2 to 3 days, and a review of various documented procedures and papers supplied by the DFM prior to the visit and during the visit.

During the visit our Business Risk Consultant conducts a series of meetings with key management within the DFM from different sectors of the business to allow them to explain in more detail how their firm operates and the controls and procedures that are in place. In general the visits involve meetings with senior representatives from Investment Management, Operations, Compliance, Risk Management, Human Relations, Training and Competence and I.T.

On occasions the DFM will inform us that certain documents that we request are not available due to the confidential nature of the information they contain. In cases in which this has occurred we simply note that the document could not be provided due to the confidential nature of the information.

## The threesixty Assessment: The report format

The report that follows is divided into the various subject headings as follows:

- Corporate Governance/ Systems and Control
- Client and Referring Intermediary Arrangements and Financial Promotions
- Recruitment
- Training & Competence
- Discretionary Fund Management Procedures
- Outsourcing
- Financial Crime
- Complaints
- Business Continuity

The aim is that the review of the combination of different areas of the business ensures that all the key aspects of the business are reviewed. In each section our overall focus is to attempt to explain what procedures the DFM firm has put in place to control its business, and to manage the risks so as to ensure good client outcomes can be achieved.

## The threesixty Assessment: How to use it

As noted above the threesixty report is only part of the information that you will need to gather within the overall due diligence process. In part it aims to provide some independent verification for you that certain key procedures and controls are in place within the DFM. However, it will also hopefully help you to construct further questions that you may wish to ask the DFM during the due diligence process.

## Additional threesixty assessment reports

threesixty have carried out a number of assessments of discretionary fund management firms on a similar basis to the review of Quilter Cheviot. As at December 2016 reports on the assessments of the following firms can be accessed by threesixty members on our website:

- Beaufort Investment Management Ltd
- Brewin Dolphin
- Close Brothers Asset Management Ltd
- Cornelian Asset Management
- GAM
- Investec Wealth & Investment
- Liontrust
- Parmenion
- Sanlam Private Wealth
- Sarasin and Partners LLP
- Seven Investment Management
- Standard Life Wealth
- Square Mile Investment Services Ltd
- Tilney Investment

Further assessments on additional discretionary fund management firms are being carried out, or are due to take place in the near future and the reports will be added to the website in due course.

## Assessment Report

threesixty has only reviewed those documents made available on our review. We have not investigated their efficacy and practical use. All reasonable precautions have been taken to ensure that the information contained is correct, threesixty services LLP does not accept any responsibility for errors, inaccuracies, omissions or any inconsistencies. This information should not be relied upon by third parties, and should not be considered as an endorsement as to individual suitability of the firm for a financial advisers' clients.

## Quilter Cheviot: Key details

Firm name	Quilter Cheviot
Turnover	£141.9 million based on the year ending 31 <sup>st</sup> December 2015
Established since	1771
Funds under management	£18,825m as at 30 <sup>th</sup> June 2016
Contact details	Adrian Tonks: Intermediary Business Development Manager +44 (0)151 243 2163 <a href="mailto:adrian.tonks@quiltercheviot.com">adrian.tonks@quiltercheviot.com</a>
Useful links	<a href="https://www.quiltercheviot.com/home/for-financial-advisers/">https://www.quiltercheviot.com/home/for-financial-advisers/</a>

## Assessment findings

### A. Corporate Governance and Systems & Controls

This section explains how the business is structured and managed. It seeks to explain the key procedures that control the risks within the overall business.

#### Review findings

1. Quilter Cheviot became part of Old Mutual Wealth in February 2015 and is now part of a FTSE 100 company with a market capitalisation of circa £9.6bn as at November 2016. As a result of the acquisition, the integration into the group of Quilter Cheviot is ongoing as reflected in some of the comments within this report.
2. The governance structure within Quilter Cheviot is designed to ensure that:
  - a. Specific risks are managed within a comprehensive framework
  - b. The integrity of legal entities is maintained
  - c. Controls operate effectively
  - d. Infrastructure supports business and product development
  - e. Client related risks are managed across businesses
3. Quilter Cheviot operates a “three lines of defence model” designed to protect the firm’s internal control framework, utilising both current and forward looking risk management. The three lines of defence look as follows:
  - a. 1st Line: Business unit line management and the Risk Forum identifies, manages, mitigates and reports on risk as part of their formal responsibilities, and are responsible for operating effective controls. As the Senior Management Team, the Executive Group has responsibility for day-to-day risk management of the firm.
  - b. 2nd Line: The Risk Department and Compliance Department deploys the risk management framework across the organisation, monitors adherence to the framework, strategy and procedures, supports risk management within the business functions and escalates risk and control issues to senior management. Finance is also a key business unit in regards to financial reporting.
  - c. 3rd line: Internal Audit provides independent assurance on the design and operational effectiveness of key controls, and will also provide assurance that the overall risk management process is functioning as designed. The Board sets the risk appetite and provides oversight.
4. Risk will roll out a risk management platform tool, commencing Q2 2017. This tool will assist management in the assessment and ongoing monitoring of risk. Management will use this tool as the method of recording the assessment of risk exposures and monitoring controls in place to mitigate the risks.

5. The firm's intranet contains a wide number of readily available policies and procedures for all staff to view as part of the desire to manage risk within the business. Specific to this assessment, we noted that the intranet included the Compliance Department Policy and Manual and the Investment Managers Policies and Procedures Manual.
6. The firm's governance structure is based around the following:
  - a. Board Meetings – these meetings take place on a quarterly basis and following the acquisition in 2015, the board consists of members from the Old Mutual Group; some of whom provide a non-executive and hence more external insight and feedback.
  - b. Executive Committee Meetings – this committee meets quarterly and is represented by members of the senior management team (various heads of departments and teams) including the Chief Executive Officer who acts as his capacity as chairman.
  - c. Risk Forum Meetings – these monthly meetings sit at the core of the ongoing review and management of the business, and are represented by the various heads of relevant departments.
7. It is understood that terms of reference are in place for each of the primary management meetings that take place, together with minutes of each meeting. Whilst this review did not include a review of the minutes of the various meetings noted above, threesixty were provided with a summary of the Risk Forum report in terms of the headline areas of business lines, criteria, measures and monitoring that are covered and these are as follows:
  - a. Operational Risk
  - b. Business Risk
  - c. Investment Manager Risk
  - d. Liquidity Risk
  - e. Counterparty Risk
  - f. CASS
  - g. TCF and Conduct Risk
  - h. Complaints and EODs
  - i. Anti-Money Laundering – Fraud and Financial Crime
  - j. Compliance
  - k. Technology
  - l. Human Resources
  - m. Internal Audit
8. Cheviot Quilter operates an ongoing Compliance Monitoring Programme which is referred to as the Compliance Risk Universe, and this differentiates between the

monitoring and surveillance of various activities which are then presented in a risk register format with a corresponding impact versus probability assessment. The document then seeks to confirm the regulatory risks, frequency, and also the controls, policies and procedures to mitigate the risks.

9. There is a conflicts of interest policy and register in place. The policy is a commitment to the firm's Responsible Business Policy, which has been adopted from Old Mutual following the acquisition. The conflicts of interest policy provides the rationale behind how the firm identifies and manages any potential conflicts. Our review of the corresponding register seems to demonstrate that this is capturing potential conflicts as appropriate.
10. A documented remuneration policy has been implemented from Old Mutual which provides a high level framework for the business.
11. Quilter Cheviot has in place a TCF and Conduct Risk Committee which meets quarterly and is primarily responsible for the co-ordination and implementation of TCF and Conduct Risk practices across the firm.
12. Professional Indemnity Insurance is in place which covers Old Mutual plc and all subsidiaries; which includes Quilter Cheviot.

Due to the confidential nature of the information contained within them, threesixty were not given access to management committee meeting minutes or detailed management information. However, it would appear from various positioning documents and discussions with key members of staff that Quilter Cheviot have a comprehensive framework to enable risks to be managed effectively within the business.

## B. Client and referring/introducing intermediary arrangements and financial promotions

This section looks at how the DFM deals with clients and what are the legal and procedural arrangements with introducing intermediaries. It looks at the contracts and on boarding procedure and what checks they will do on the intermediary business. It seeks to identify whether or not the process, and the responsibilities of all parties are clear.

This section also looks at how the DFM markets itself, and what controls it has to ensure that promotions are clear, fair and not misleading.

### Review Findings

#### Referring/introducing intermediary communications

1. Quilter Cheviot are able to offer intermediaries with three means of engagement:
  - a. Clients who are introduced by the Financial Adviser or where the Financial Adviser acting as agent in administration matters only.
  - b. Clients with the Financial Adviser accepting responsibility for suitability.
  - c. Clients with Financial Adviser acting as full agent.
2. In the first instance, Quilter Cheviot and the intermediary will discuss and formulate their terms of business, which is then signed by both parties. This may include the following:
  - a. Definitions, Interpretations and description of the contracting parties
  - b. Anti-money laundering, bribery and corruption responsibilities
  - c. Instructions and referrals from the financial planning firm
  - d. Determine who is responsible for client suitability and also the provisions for termination
  - e. Adviser charges and adviser access to online client valuations
3. Responsibility for investment suitability will be dependent upon the service being provided as Quilter Cheviot will retain responsibility for clients using their tailored Discretionary Portfolio Service whilst the intermediary will retain responsibility where the Managed Portfolio Service is being used.
4. In addition to the terms of business noted above, Quilter Cheviot will require a signed Investment Management Agreement to be signed by each client as part of the account opening process. This agreement will confirm the investment mandate to be put in place and also provide the consent to carry out the necessary anti-money laundering verification checks.
5. To provide additional clarity, Quilter Cheviot have created a “Division of Responsibilities and Services” which pictorially demonstrate where the responsibility will lie depending upon the investment service and method of engagement between Quilter Cheviot and the intermediary.

6. Quilter Cheviot do not separate the roles of relationship management and that of investment management, as their wish is for the intermediary and its clients to be able to have direct access to the investment manager who is making decisions on their behalf.
7. Where the intermediary is the preferred channel of communication to the client, Quilter Cheviot operates a process whereby if a client has not had a Suitability Assessment in the previous 12 months, a letter will be sent to the intermediary to ask whether there have been any material changes to any of the questions that are covered within the Suitability Checklist.

Where Quilter Cheviot is responsible for investment suitability, as in the DPS tailored service only, there is a process which ensures regular checks are made to reaffirm the suitability of the client mandate.

From a review of the template agreements and the supporting documents issued to the intermediary and their clients, the roles of each party appear to be clearly laid out. We were also provided with access to see an example of the interaction between the firm and an intermediary and this demonstrated a keenness to understand how best the firm can work with the intermediary.

#### Financial Promotions

1. Quilter Cheviot have clearly documented procedures in place for the approval and recording of financial promotions.
2. A Financial Promotions Approval Sign-Off Form is used as a data capture form which is completed by the originating department and then submitted to the Marketing Department prior to the final draft being submitted to the Compliance Department for formal approval ensure that they are fair, clear and not misleading.
3. The Financial Promotions Approval Procedure provides the background as to what constitutes a financial promotion through to the approval process itself and the firm's obligations for record keeping as defined by the FCA Handbook.
4. All financial promotions are captured within a spreadsheet which is then monitored on a monthly basis in order to identify any promotions where they were approved more than six months ago. Where this is the case, the promotion will be then be re-reviewed.

From a review of the documentation provided and a sample of recent financial promotions issued, it appears that Quilter Cheviot have adopted a clear and appropriate approach to the review and approval of any financial promotions issued, irrespective of whether the intended audience are clients or their intermediaries.

## C. Recruitment

This section aims to illustrate what procedures the DFM has in place to ensure that staff it employs are fit and proper. It looks at how the recruitment process works, and how staff are inducted into the business to ensure that they are aware of company procedures.

It will also look at remuneration policies to see if these have been clearly defined.

### Review findings

1. Quilter Cheviot have a detailed recruitment process which is contained within the T&C Policy.
2. To support this process, which must be followed in respect of all potential recruits, threesixty was provided with a number of key forms used as part of the recruitment framework, including: Recruitment Requisition Form; Job Description and template; guide to effective interviewing; and also an interview plan.
3. When considering to recruitment, Human Resources are tasked to authorise each vacancy and this can only be sanctioned if a full job analysis has been completed which confirms the job description and key accountabilities.
4. A job specification is prepared using a defined job Competency Matrix to provide consistency of approach across the firm.
5. The selection process can include a competency based interview, assessment centre (tests/group exercise/in tray tests/ psychometric tests – as appropriate), and a second interview. If successful, the candidate will then be issued with a job offer, triggering the request for appropriate references.
6. All offers of employment are dependent upon confirmation of a satisfactory pre-employment screening (which includes a Disclosure and Barring Service check and Worldcheck) and medical history.
7. The interview process will only involve those individuals who have the required training and coaching
8. Quilter Cheviot adheres to the requirements of the Old Mutual Group Remuneration Policy and due to the confidential nature of this policy, it was not possible to review a copy of this document.

Whilst the review of recruitment did not include the examination of specific employee files as they are confidential documents, there appears to be a robust and appropriate process in place in respect of Quilter Cheviot's recruitment procedures.

## D. Training & Competence (T&C)

This section looks at how the DFM sets out its training and competence regime, and reviews what processes are in place to train, assess and monitor staff and investment managers in particular in their role of dealing with clients introduced from intermediaries.

### Review findings

1. The expectations of the business in relation to the training and competence of its staff are contained within the T&C Policy. The policy covers the scheme's operations in the UK, Jersey and Ireland.
2. The policy covers the firm's Investment Managers, advisers, investment dealers, research analysts, and also regional sales managers.
3. Team Leaders and office heads are responsible for ensuring that their teams are managed in accordance with the T&C Policy.
4. Nominated supervisors are responsible for the induction training for new recruits, day to day supervision, and also appraisal process which monitors employee's continuing competence.
5. Newly appointed Investment Managers are subject to a structured induction programme which covers both statutory requirements and an understanding of the firm's business culture and ethos, in order to provide a balanced approach. The next step is then dependent upon the location of the individual and tailored accordingly.
6. To attain competence requires the completion of an Assessment of Competence Form which demonstrates that an individual is deemed to have attained competence. In order for this to be achieved this requires the demonstration of the required technical knowledge, relevant personal and IT skills (including their application and development), and also market awareness.
7. Once competence has been attained, the individual is then responsible for ensuring that they attend relevant and appropriate training and the supervisor is tasked with reviewing that they are relevant to the needs of the individual and the business.
8. Continuing Professional Development (CPD) is a key area and the firm defines the areas for CPD to be undertaken as:
  - a. New market and product developments
  - b. Background technical knowledge (e.g. trusts)
  - c. Training in relevant skills (e.g. use of in-house systems)

Relevant individuals must also attend compliance update training, IT update training, and must also attend at least one module of the Quilter Cheviot Investment Management CPD Programme. CPD is monitored at quarterly intervals for evidence of progression.

9. All Investment Managers maintain membership of the Chartered Institute of Investments and Securities (CISI) and CPD is maintained using CISI's portal.

10. Furthermore, all staff are encouraged to complete CPD training every year and each individual is classed as either Regulated Employees or Non Regulated CISI Members and are required to log their CPD hours directly with the CISI.
11. A key aspect of the Quilter Cheviot appraisal process is that the training needs of the individual are considered formally at least once per year. The appraisal process covers the following:
  - a. Individual contribution and achievement
  - b. Whether personal objectives have been met
  - c. Difficulties and challenges encountered and overcome during the year
  - d. Employee initiatives taken
  - e. Any special effort or commitment demonstrated.
12. To support and nurture talent within the business, there is a Career Development Guide available to all members of staff, and there is also further specific guidance for those seeking to obtain investment management qualifications.
13. There is a documented Examination Policy which confirms the support available from Quilter Cheviot for those members of staff who wish to undertake professional qualifications.
14. Within the company intranet is a HR portal which provides guidance for all staff as well as additional guidance for FCA authorised individuals.

Based on a review of the documentation provided, there appears to be a robust framework in place for the induction and ongoing supervision and monitoring of Quilter Cheviot's Investment Managers. Due to their confidential nature, we did not have access to specific Investment Managers' T&C records to confirm that the procedures are being followed apart from an extract from an anonymised Investment Manager's CPD record.

## E. Discretionary management procedures

This section looks at the procedures and controls the DFM has put in place to carry out the DFM service. It aims to assess how they arrive at decisions when managing funds, and how do they record and monitor the process. It looks at the structure of the process including the firm's investment philosophy, investment committees, research, how decisions are implemented and the controls in place to minimise the risk of errors and loss to clients.

### Review findings

Quilter Cheviot has set out its investment processes and procedures through two key documents; namely the Investment Philosophy and Process and the Investment Manager's Policies and Procedures. From these documents, the key elements extracted which contribute to the delivery of investment management services to intermediaries and their clients include the following:

1. The overall process is jointly owned by the Chief Investment Officer (CIO) and the Chief Investment Strategist (CIS). The CIO provides oversight of the "top down" aspects of the process which, for example, includes asset allocation and risk control. The CIS provides oversight of the "bottom up" aspects such as security selection and research. These styles are then combined to produce the investment policy for Quilter Cheviot.
2. There are a number committees in place which report into the Investment Oversight Committee (IOC), which meets monthly and has overall responsibility for the Quilter Cheviot investment process. The committees reporting into the IOC include:
  - a. Asset Allocation Committee
  - b. Fixed Income Committee
  - c. Investment Funds Committee
  - d. UK Stock Selection Committee
  - e. International Stock Selection Committee
  - f. Alternatives Committee
3. The IOC is responsible for reporting to both the Executive Committee and also the Board.
4. The membership of each committee appears to have been carefully selected and each committee is supported by its own terms of reference. We understand that minutes from each committee meeting are produced and published within the firm's intranet.
5. There is a dedicated research team of qualified and experienced individuals which provides support to the investment managers and operate a consistent approach with the outcomes, in the form of research notes, being made available via the firm's intranet.
6. As the investment managers are based in offices around the UK, communication is key to ensuring a consistent approach is adopted and this is achieved by the following:

- a. Morning Meetings – these are hosted by the London office and all offices are linked up via video conference facilities. These meetings enable the investment managers to discuss both the wider economic situation and also the opportunity to reinforce internal changes and messages.
  - b. Weekly Investment Meetings – these are also hosted in the same way as the morning meetings and are open to all staff and adopt a structured process where discussion topics are rotated during the course of each month.
  - c. Branch Meetings – these are organised throughout the year and enable members of the research team to meet with investment managers and share ideas and developments.
7. There is an established portfolio strategy philosophy which generates a range investment strategies and displays these in the form of a matrix that are then used with the Discretionary Portfolio Service (DPS) and Managed Portfolio Service (MPS) services.
8. The MPS portfolios are managed centrally by a dedicated MPS team and are rebalanced on a quarterly basis.
9. Investment Managers have the ability to invest in self-generated ideas and these can be used in up to 20% of a client's portfolio, and the 20% must also include the likes of client influenced ideas and any cherished holdings.
10. In order to monitor portfolios, including those using Investment Manager led research, we were informed that Quilter Cheviot's back office system runs a report every night which performs a set of tests, including a check whether the 20% limit has been exceeded; then enabling action to be taken as appropriate to address any issues necessary.
11. Errors, both in relation to the numbers involved and also noticeable trends are reported by the Operations Department for consideration by the Risk Forum each month.
12. Quilter Cheviot has an Order Execution Policy which provides the rationale behind achieving best execution, what factors are taken into account, the choice of execution venue, and specific responsibilities. We understand that the policy, and also the execution venues, are reviewed each year.
13. Periodic reports are issued half yearly to clients by Quilter Cheviot. Clients can elect to receive periodic reports on a quarterly if they so wish. A copy of a typical periodic report was provided for review as part of this assessment.

This assessment did not include a detailed review of the workings of the various committees or controls noted above. However, it would appear from discussions with key members of the management team, and the evidence that was provided, that Quilter Cheviot have in place an in depth process designed to manage and control the risks of the investment services provided to both intermediaries and their clients.

## F. Outsourcing

This section looks at the extent that a DFM outsources key tasks to 3rd parties, and if it does what processes are in place to monitor this activity and minimise any adverse impact to clients.

This section is not relevant to all firms as not all firms outsource key tasks to 3rd parties.

### Review findings

Quilter Cheviot use outsourced specialist service providers in two areas of their business, namely provision of custody services and the provision of technological services and support.

1. Quilter Cheviot's Risk Department manages and monitors all outsourced activities as part of a quarterly review, and these activities are also subject to a six-monthly review by the CASS Manager. The monitoring programme in place includes:
  - a. The Risk Team performs initial due diligence at commencement of any prospective new provider relationship and quarterly review meetings with all current service providers.
  - b. The Risk Team undertakes a quarterly review of all banks and custodians where client money is held with the results of that review being presented to the Quilter Cheviot Client Money & Counterparty Committee for their review and approval.
  - c. A monthly review of bank credit ratings is performed by the Risk Department and reviewed by the Quilter Cheviot Client & Client Money Committee on a quarterly basis.
  - d. Client money is deposited into bank accounts that have recognised Trust status in accordance with the FCA Client Money rules. A list is maintained of all client money bank accounts and any changes to the list of approved banks must be approved by the Client Money and Counterparty Committee, which is chaired by Quilter Cheviot's CASS Oversight Function.
2. It is understood that any service related issues are discussed at the above meetings and are formally reported to Quilter Cheviot's CASS Operational Forum as and when they arise.
3. Quilter Cheviot's Technology Team are responsible for managing and monitoring the support and services provided by third party providers.
4. Service level agreements are in place with all key third party technology suppliers and their performance is monitored to ensure compliance through the provision of monthly reports from each supplier. Regular face to face review meetings are also held with each supplier.

No review of the workings of outsourcing arrangements was carried out as part of the threesixty assessment. However, from the information provided by the firm's representatives it appears that Quilter Cheviot have procedures and processes in place for the appropriate monitoring of its outsourcing arrangements.

## G. Financial crime, anti-money laundering, data security, fraud and the Bribery Act

This looks at how the DFM assesses its risks of being subject to financial crime and how they mitigate the risks by way of business controls and procedures, monitoring, training and reporting.

### Review findings

1. Quilter Cheviot has in place a series of specific measures which staff must adhere to in the fight against financial crime and these are contained within the Compliance Manual, and this is available to all members of staff via the firm's intranet.
2. There are also standalone policies on specific areas of financial crime, including:
  - a. Anti-Bribery Policy
  - b. Sanctions
  - c. High Risk Jurisdictions
  - d. Market Abuse & Inside Information
  - e. Fraud Prevention
3. Staff are updated through regular and ad-hoc communications by the Compliance Department and act as reminders of their obligations in fighting financial crime.
4. The Anti-Bribery and Corruption Policy which clear outlines the firm's commitment to a zero tolerance approach towards anti-bribery and corruption. This policy and others are also available for review by all members of staff via the intranet.
5. The Compliance Department monitor a number of metrics as part of their monthly reporting to the Quilter Cheviot Risk Committee. The metrics include:
  - a. Politically Exposed Persons/Sensitive Accounts for each reporting month
  - b. Accounts that have been refused due to an identified AML issue
  - c. Fraud attempts on client accounts
6. A Money Laundering Reporting Officer's report is produced annually by the Head of Compliance who is also the Money Laundering Reporting Officer. The latest report is to be signed off by the Old Mutual Group Board in due course as the reporting dates are currently being aligned with the Group.
7. There are written procedures in place for the recording of any gifts and hospitality received by Quilter Cheviot employees. Gifts and entertainment of any value must be recorded as per the firm's Gifts and Entertainment Policy; details of which are accessible via the intranet.
8. Training is provided as part of the firm's induction process, and annual training for all staff in relation to financial crime and market abuse is delivered by computer based training provided by Human Resources and monitored by the Compliance Department.

9. The firm has in place detailed procedures used to identify clients and as part of this, due diligence is completed for all new business relationships involving third parties, partners and suppliers. These relationships are governed by the firm's Procedures for New Business Initiatives and published internally for all staff to view.
10. Enhanced due diligence checks are required whenever a client account is considered to be either sensitive or high risk in nature.
11. As part of the client on-boarding process, source of funds and origin of wealth are obtained as standard.
12. There are a number of additional supporting policies and procedures to support the core procedures in place, and these include:
  - a. Data Protection Policy
  - b. Information Security Policy
  - c. Electronic Communications Policy

As with other core procedures, all staff are provided with training on data security as part of their induction programme. Thereafter, staff are required to complete an annual refresher course delivered by Quilter Cheviot's e-learning portal and the course is then followed by an online test.

From the documents presented as part this assessment it would appear that Quilter Cheviot have clearly defined policies and procedures in place to manage the risks of being subject to financial crime.

## H. Complaints

This looks at how the DFM handles complaints and ensures that they are independently handled and that the process is fair and clear.

Depending on the arrangement the intermediary has with the DFM this may be a case of assessing how the DFM deals with complaints from the intermediaries clients, or if there is no direct relationship with investor clients how would the DFM deal with any potential complaints from the intermediary as a professional client.

### Review findings

1. Quilter Cheviot has in place a comprehensive complaints handling policy which is hosted on the firm's intranet. The policy is regularly reviewed and updated by the firm's Compliance Department, with the last review noted as October 2016.
2. With regards to the external complaints procedures, there is a document titled "Complaints – What to Do" which is accessible to clients, including via the Quilter Cheviot website which provides information on what is a complaint and an outline of the process followed. In addition to this, there is a section within the Terms and Conditions document entitled 'Complaints' which is provided to a client as part of the engagement process.
3. The induction process at Quilter Cheviot includes training on the firm's internal complaints handling process and thereafter, ongoing training is provided via the Human Resources Department (HR). HR utilise an automated system which ensures timely completion on ongoing training and assessment of key areas including complaints handling.
4. All complaints received by the business must be notified immediately to Compliance and they will then be dealt with by Compliance either independently or in conjunction with the relevant team/Investment Manager. This approach is designed to ensure that the views of the individual involved within the firm is sought, whilst the overall handling of the complaint remains an independent process managed by the Compliance Department.
5. Due to the above structure for handling a complaint, staff receive regular reminders from the compliance team reminding of the obligation upon all staff to communicate any complaint to compliance so that it can be handled correctly.
6. An extract of the firm's complaints register was provided by the Compliance Department and this captures the chronology of each complaint together with details of the outcome. A separate folder is created for each new complaint received and all relevant documentation relating to that complaint is scanned into that folder.
7. An example of a complaints file was briefly reviewed as part of this assessment and this appeared to indicate that the complaints handling process is being followed.
8. Complaints data is reported to the monthly Risk Forum meetings where it is then analysed from both a quantitative and qualitative viewpoint. The Risk Forum reports its findings to the Executive Committee.

Our review of Quilter Cheviot's procedures indicate that a process is in place to provide an independent review of each complaint and the firm's performance is reported for review by the Risk Forum.

## I. Business continuity/disaster recovery

This section looks at the arrangements the DFM has put in place to ensure that if a disaster did occur they could respond quickly, and either maintain their service to clients, or restore the service in an acceptable time frame in order to minimise any risk of loss.

### Review findings

1. The Head of Risk has overall responsibility for Business Continuity within Quilter Cheviot.
2. A detailed Business Continuity Plan (BCP) is in place which is reviewed at regular intervals with the last review taking place in March 2016.
3. The BCP details Quilter Cheviot's strategy for the continuity of its UK based operations including its London base and regional offices. The plan specifically includes:
  - The plan would be implemented by a Crisis Management Team (CMT) which consists of key individuals within the firm, including the Chief Financial Officer, Chief Executive Officer, and also various heads of department and heads of teams.
  - The BCP outlines the role and responsibilities that each individual will play within the CMT, and this includes regular maintenance checks to ensure that each CMT member holds current contact details of those team members and contractors who would report into them in the event the BCP is initiated.
  - There are also a range of defined advance actions which are undertaken on an ongoing basis which are designed to ensure that the CMT can be rallied quickly if necessary.
  - The maintenance of the BCP is directed by a separate BCP Steering Committee, which consists of key members within the business, including the Head of Risk.
  - Incorporated within the BCP is a Business Recovery Strategy which covers a range of events and how each business site would deal with them.
4. Quilter Cheviot has completed a Business Impact Analysis and we understand that this is in the process of being reviewed and updated.
5. The Operations Team has prepared a "battlebox" designed to ensure that the CMT have immediate resources to hand when required.
6. There is currently a dedicated back-up site based in Leicester and we understand that this is currently being reviewed to further enhance these arrangements.
7. Testing of the plan is conducted at least once every eighteen months or following any major system changes and this is complemented by simulation testing, and in all cases the learning points from these tests are reported and remedied.

8. There is also a separate IT and Telecoms Disaster Recovery Plan in place, but this was not specifically reviewed as part of this assessment.

From discussions with relevant personnel from Quilter Cheviot, it would appear that business continuity and disaster recovery arrangements are treated as a high priority within the company.