PILLAR 3 RISK DISCLOSURES

Introduction

The firm is required by the Financial Conduct Authority ("FCA") to disclose information relating to the capital it holds and each material category of risk it faces in order to assist users of its accounts and to encourage market discipline. These disclosures aim to provide information on the risk exposures faced by the firm and the risk assessment process it has in place to monitor these. Known as "Pillar 3" disclosures, they are required to be made under Chapter 11 of the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") and are seen as complimentary to the firm's minimum capital requirement calculation ("Pillar 1") and the internal review of its capital adequacy ("Pillar 2").

The firm, in common with most investment managers is a BIPRU firm under the rules of the FCA. BIPRU firms are subject to the European Capital Adequacy Directive ("CRD"). BIPRU firms are effectively subject to CRD III and are not subject to the rules of CRD IV which were implemented on 1 January 2014. The firm is in the process of becoming a Full Scope Alternative Investment Fund Manager ("AIFM") and when the firm obtains that permission these disclosures will be updated.
The firm is an asset manager and does not risk its own capital in the financial markets. The firm does not have regulatory permission to take proprietary trading risk and does not take such risk. Accordingly, the risks that the firm faces are more limited in scope than for other types of regulated firms. The risks and controls detailed below are, in accordance with the BIPRU rules, risks that the firm faces in respect of its own activities. The risk management processes and controls for monies managed by the firm are not part of these disclosures.

Capital

The capital of the firm is in the form of LLP capital. The amounts disclosed as members' capital in these Pillar 3 disclosures meet the criteria for eligibility of members' capital under the rules of the FCA GENPRU 2.2.94.

Risk management

All activities of the firm are under the control of the four members, who ensure that there are effective systems and controls in place to identify, monitor and manage risks arising in the business. Management accounts demonstrating the adequacy of the firm's regulatory capital are prepared on a monthly basis.

Appropriate action is taken where risks are identified which fall outside of the firm's risk tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the firm's mitigating controls.

Specific risks applicable to the firm come under the headings of business, operational, credit and market risks.

Business risk

The firm's revenue is reliant on the performance of the existing funds under management and its ability to raise new investments. The firm has sought to mitigate this risk by attracting further partners who will invest in the business and is actively seeking further investment into the fund.

Operational risk

The firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and uses outsource providers where appropriate.

Credit risk

The firm is exposed to credit risk in respect of investment management fees billed and cash held on deposit.

The number of credit exposures relating to the firm's investment management clients is limited. Management fees are accrued monthly and payable quarterly from the fund managed and performance fees are drawn every year end where applicable. The firm considers that there is little risk of default by its clients. All bank accounts are held with large international credit institutions and the firm monitors its exposure to those institutions on an ongoing basis.

Given the nature of the firm's exposures, no specific policy for hedging and mitigating credit risk is in place. The firm uses the simplified standardised approach detailed in BIPRU 3.5.5 of the FCA Handbook when calculating risk weighted exposures in respect of its debtors. This amounts to 8% of the total assets on the balance sheet other than bank balances which are subject to a risk weighted exposure of 1.6% in accordance with BIPRU 2.4 of the FCA handbook.

Market risk

The firm takes no market risk other than foreign exchange risk in respect of its accounts receivable in currencies other than GBP. Such risk is considered to be minimal and no specific strategies are adopted in order to mitigate the risk of currency fluctuations.

Liquidity risk

The firm's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in fees received/receivable. The firm maintains cash balances at its bankers to cover liquidity risk.

Concentration risk

Concentration risk is the risk that the firm is overly dependent upon any one customer or any one group of connected customers either in terms of income dependency or in terms of credit risk.

Whilst the LLP has only a small number of customers, underlying the fund the LLP manages is a number of investors.

Pension obligation risk

The firm has no defined benefit schemes and thus has no pension obligation risk.

Residual risk

Residual risk is any risk not covered by the specific risk categories outlined above. The members do not consider that there are any residual risks that require the firm to maintain any additional capital.

Capital adequacy

Capital resources

As at 31 May 2018 the firm held regulatory capital resources of £60,209. This comprised solely of core Tier 1 capital. As disclosed in Note 14, subsequent to the year end the members injected an additional £74,971 of capital into the form meaning the total capital is now £135,000.

Capital requirement

As at 31 May 2018, the firm's Pillar 1 capital requirement was EUR 50,000 or £43,908. This has been determined as the higher of the base capital requirement of EUR 50,000, the firm's Fixed Overheads Requirement ("FOR") and the sum of the market and credit risks that the firm is exposed to. The FOR is calculated in accordance with the FCA's General Prudential Sourcebook ("GENPRU") at GENPRU 2.1.53 and is based on annual expenses net of variable costs deducted. The partners have carefully reviewed the risks that the firm is exposed to and have determined that there is no requirement for additional capital under Pillar 2. The firm monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year.

Satisfaction of capital requirements

Since the firm's ICAAP (Pillar 2) has not identified capital to be held over and above the Pillar 1 requirement, the capital resources detailed above are considered adequate to continue to finance the firm's Pillar 1 requirement over the next year.

Remuneration disclosures

Under the Remuneration Code (the "Remuneration Code"), the firm, as is standard for an investment management firm, is classified as a Proportionality Level three firm. Proportionality Level three firms are permitted to disapply many of the technical requirements of the Remuneration Code and proportionately apply the Remuneration Code's rules and principles in establishing the firm's policy.

As at 31 May 2018 the firm had 4 Code Staff all of whom were in a "significant influence function" as they are all partners in the firm. The firm currently has no risk takers who do not also occupy a "significant influence function". The firm has only one business area which is its investment management business.

The Decision Making Process

The firm has concluded that, on the basis of its size, the nature, scale and complexity of its legal structure and business and the nature of the risks that it takes on behalf of clients, it does not need to appoint a remuneration committee. The firm feels that its Remuneration Policy appropriately addresses potential conflicts of interest and that the firm's authorised persons are not rewarded for taking inappropriate levels of risk. The policy is reviewed at least annually and will be amended, as and when required due to changes in regulation as well as the firm's own decision making process.

The link between pay and performance

The firm sets the variable remuneration of its Code Staff primarily based on the performance of the FIRM however adjustments may be made depending on the performance of the individual. This policy is consistent with the way in which the firm generates its income.

Quantitative remuneration data

We are required to disclose the following quantitative data:

- BIPRU 11.5.18R(6) (aggregate quantitative information on remuneration, broken down by business area)

- BIPRU 11.5.18R(7) (aggregate quantitative information, broken down by senior management and members of staff whose actions have material impact on the risk of the firm).

The firm has only one business area. All Code Staff are deemed to be members of senior management and the total amounts allocated as remuneration to Code Staff amounted to £400,000.

Stewardship disclosure

Under the rules of the FCA, COBS2.2.3R the firm is required to include on its website or in another accessible form, disclosure about the nature of its commitment to the UK Financial Reporting Council's Stewardship Code (the "Code") or, where it does not commit to the Code, its alternative investment strategy. The firm has chosen to meet its obligations by making the disclosures here in the annual accounts.

The Code is a voluntary code and sets out a number of principles relating to engagement by investors with UK equity issuers. Investors that commit to the Code can either comply with it in full or choose not to comply with aspects of the Code, in which case they are required to explain their noncompliance. The LLP will usually vote the securities held by accounts managed by the LLP where a vote is considered important or the stake held is significant.