Pillar 3 Disclosure and Policy

Stenham Asset Management (UK) Plc. (“The Firm”)

June 2018

STENHAM
ASSET MANAGEMENT

The following information is provided pursuant to the Pillar 3 disclosure rules as laid out by the Financial Conduct Authority (“**FCA**”) in section 11 of its Prudential sourcebook for Banks, Building Societies and Investment Firms (“**BIPRU**”).

Background

The FCA has implemented a prudential framework for investment firms through changes to the FCA Handbook of Rules and Guidance (specifically in BIPRU). The framework consists of three “pillars”:

- Pillar 1 sets out the minimum capital requirements;
- Pillar 2 is an assessment of whether additional capital is needed over and above that determined under Pillar 1; and
- Pillar 3 requires the investment manager to publish its objectives and policies in relation to risk management, and information on its risk exposures and capital resources.

The rules provide that disclosures are only required where the information would be considered material to a user relying on that information to make economic decisions. The Firm is a “BIPRU €50,000 limited licence firm” not authorised to deal with retail clients or take proprietary trading positions. As a consequence the main risks facing the Firm relate to its operations and its business environment. Whilst the Firm does have some exposure to credit and market risk, this is not considered to be material.

The disclosures below are the required Pillar 3 disclosures and apply solely to the Firm.

Although the Firm believes the risk management framework outlined herein is appropriate for the size and complexity of the Firm and that the Firm’s capital is adequate to meet the risks assessed, it cannot guarantee that this will actually be the case in the event any particular risk arises. There will always be some unlikely risks with unusually high impact which may require additional capital should they arise.

Risk management

The Firm operates a risk management framework that sets out the responsibilities and escalation procedures for the identification, monitoring, and management of operational and business risks. Capital planning takes these identified risks into account.

Specific personnel are assigned responsibility for the risks across the Firm’s offices and business units. The Firm’s Managing Director, supported by the Risk Committee, takes overall responsibility for identifying material risks to the Firm and putting appropriate mitigating controls in place.

Risks and mitigating controls are periodically reassessed, taking into account the Firm’s risk appetite. Where risks are identified which fall outside of the Firm’s risk tolerance levels, or where the need for remedial action is identified in respect of identified weaknesses in the Firm’s mitigating controls, then actions are taken to improve the control framework.

The Board of SAM UK meets periodically to review the quality of the control framework and to satisfy itself that appropriate controls are in place and that mitigating actions are moving forward.

The specific types of risks faced by the Firm are;

Operational risk

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. The Firm seeks to minimise operational risk through a controls framework, particularly when engaging in new business ventures or trading new products. The Firm considers risks which may impact the Firm directly or indirectly. The most significant operational risks facing the Firm would most likely be a catastrophic systems failure and unexpected losses due to malfunctioning market and liquidity controls.

Business risk

Business risk arises from external sources such as changes to the economic environment or one-off economic shocks, and also from internal sources such as poor decisions or suboptimal allocation of capital resulting in poor performance and damage to the Firm's reputation.

Various different scenarios are modelled in order to assess the impact of adverse economic conditions on our financial position. This enables the Firm to monitor its business risk and to assist in its capital planning.

Credit risk

The Firm is not exposed to credit risk other than in respect of fees/commission receivable and cash held on deposit at large international credit and regulated institutions. Fees are calculated monthly by an external administrator based on month end FUM. Most fees and commissions are received by the Firm monthly in arrears. Consequently the Firm has a limited number of credit exposures in respect of which it uses the simplified standardised approach when calculating risk weighted exposures, in accordance with the provisions of BIPRU 3.5. Credit risk is not considered to be material for the purposes of this disclosure.

Market risk

The Firm takes no market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP. The Firm calculates its foreign exchange risk by reference to the provisions of BIPRU 7.5. Foreign exchange risk is not considered to be material for the purposes of this disclosure.

Liquidity

Liquidity risk would only arise in the Firm should a credit, market or other risk arise, resulting in financial loss. The Firm has robust liquidity management and corporate governance procedures for continuous monitoring to enable remedial action if and when required.

Insurance

The Firm has full cover in place to cover all risks pertaining to its business. The level of cover is reviewed annually and as and when there are changes in risk levels. In addition the Group's Audit Committee monitors the appropriateness of the cover and financial stability of the Insurer.

Residual

Residual risk means the risk that credit risk mitigation techniques used by the firm prove less effective than anticipated. The Firm's Credit Risk is perceived to be low.

Reputational

The Firm has never been involved in a serious, public loss of reputation and therefore considers the likelihood of a negative occurrence in respect of its reputation to be low. That notwithstanding, the Firm has, in a future sensitivities analysis accounted for a 25% drop in its income arising from (although not exclusively) the departure of a significant part of its client base.

Legal action

The Firm has never been litigated against by one of its clients and given the lack of any complaints arising from its existing clients as well and the number of clients, the Firm considers this risk to be very low.

Capital adequacy

As at 31 March 2018, the Firm's regulatory capital resources of £715,200 are made up as follows:

Tier 1	£'000
Share capital and audited reserves	477
Audited reserves	238
Total regulatory capital	715

The Firm's Pillar 1 capital requirement is calculated in accordance with the General Prudential Sourcebook ("**GENPRU**") as the higher of the Fixed Overhead Requirement ("FOR"), the sum of market and credit risk requirements, and the base capital requirement of €50,000. The FOR is calculated in accordance with GENPRU 2.1.53-59 and equates to one quarter of the Firm's annual expenses excluding discretionary costs, and it is this number which determines the Firm's capital requirement. As at 31 March 2018 the Firm's Pillar 1 requirement was €50,000.

The Firm takes a prudent approach to the management of its capital base and monitors its expenditure on a monthly basis in order to take account of any material fluctuations which may cause its FOR to be reassessed. The Firm ensures that at all times it has sufficient capital to meet its FOR and formally verifies this on a monthly basis.

Under Pillar 2 of the FCA's capital requirements, the Firm has undertaken an assessment of the adequacy of capital based upon all the risks to which the business is exposed ("ICAAP"). As at 31 March 2018, this analysis concluded that additional allocation of capital is not required against the identified key risks and that holding internal capital equal to two times the Firm's base capital requirement of €50,000 would provide sufficient capital resources to support its operations over the next year, and that no additional capital injections are necessary.

Remuneration

The Firm's Remuneration Committee is responsible for setting the remuneration packages of Executive Directors, Non-Executive Directors, the Chairman and members of staff.

The Firm acknowledges the following general principles:

- Remuneration policies and practices should be consistent with, and promote, sound and effective risk management and not encourage risk-taking which is inconsistent with the risk profile of the Funds the Partnership manages.
- Remuneration Committee Charter should be in line with the business strategy, objectives, values and interests of the Firm and the Funds it managers (or the investors in such Funds), and include measures to avoid conflicts of interest.
- The Firm's total variable remuneration should not limit the Firm's ability to strengthen its capital base.
- Where the Firm's financial performance is subdued or negative, total variable remuneration should generally be considerably contracted, taking into account both current remuneration and reductions in pay-outs of amounts previously earned.

Remuneration packages are:

- Designed to be competitive and to attract, retain and motivate executives and employees of a high calibre;
- Be appropriate to the scale of their responsibility;
- Provide for a significant element of "at risk" performance-related pay; and
- Are fairly remunerated in the light of their own personal performance, as reported on by management, their contribution to the Group's overall performance and, where appropriate, the performance of the Group companies for whose performance they are individually directly responsible.

To this end the Remuneration Committee shall:

- Consider the annual salary increases and bonuses proposed by management.
- Ensure there are adequate pension arrangements for all Executive Directors and in particular to determine which elements of a Director's remuneration are pensionable;
- Establish and oversee the operation of appropriate short-term and long-term performance related bonus schemes for Executive Directors and senior members of staff;
- Ensure that performance-related elements of remuneration form a significant proportion of the total remuneration package of Executive Directors as well as senior members of staff and set appropriate performance targets in connection with these;
- Judge where to position the Group relative to other companies, be aware what comparable companies are paying and take account of relative performance, using such comparisons with caution to avoid the risk that they can result in an upward ratchet of remuneration levels with no corresponding improvement in performance.