Gresham House Asset Management Limited

Pillar 3 Disclosure

1 Introduction

Firms are required under the Senior Management Arrangements, Systems and Controls (SYSC) manual of the Financial Conduct Authority Handbook to have in place robust governance arrangements and effective procedures which allow it to identify, manage, monitor and report the risks it is or might be exposed to.

Gresham House Asset Management Limited ('GHAM', 'Firm') is authorised and regulated by the Financial Conduct Authority and this document sets out how the Firm complies with its obligations to identify, manage and mitigate risks.

2 Overview

The Capital Requirements Directive ('CRD') of the European Union created a regulatory capital framework across Europe governing how much capital financial services firms must retain. The rules are set out in the CRD under three pillars:

- Pillar 1 sets out the minimum capital resource requirement firms are required to maintain to meet credit, market and operational risks
- Pillar 2 requires firms to assess firm-specific risks not covered by Pillar 1 and, where necessary, maintain additional capital
- Pillar 3 requires firms to disclose information regarding their risk assessment process and capital resources with the aim to encourage market discipline by allowing market participants to assess key information on risk exposure and the risk assessment process.

The rules in the FCA Prudential Sourcebook for BIPRU sets out the requirements for a Pillar 3 disclosure. The document is designed to meet GHAM's Pillar 3 Disclosure obligations.

2.1 Frequency and location of disclosure

Future disclosures will be issued on an annual basis once they have been reviewed and approved by the Board. The disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the financial statements.

The report and all future ones will be published on our Firm's website.

2.2 Scope of disclosure

GHAM provides investment management services in funds for professional clients and eligible counterparties only.

The firm is classified as a BIPRU50k limited licence firm.

3 Governance Arrangements

3.1 Group Summary

As of 31 December 2015, GHAM was a wholly owned subsidiary of Gresham House Plc (GH). On 8th February 2016, the Firm became a wholly owned subsidiary of Gresham House Holdings Limited ('GHHL') which is in turn wholly owned by Gresham House Plc Neither GHHL nor GH are regulated entities, as they do not perform any regulated activities. GHAM is currently the Alternative Investment Fund Manager (AIFM) to one fund, Gresham House Strategic Plc (GHS). This disclosure relates to the business of GHAM only.

3.2 The Management Body

The Board of GHAM is responsible for the Firm's risk management governance structure and ensuring its risk exposure is managed in line with the Firm's overall business objectives and within its stated risk appetite. This includes the governance of the process for identifying, evaluating, managing and reporting the significant risks faced by the Firm.

The Board is ultimately responsible for ensuring that the Firm maintains sufficient capital and liquidity resources to meet its regulatory capital and liquidity requirements and to support its growth and strategic objectives. Risk management is embedded throughout the business, with the overall risk appetite and risk management strategy approved by the Board propagated down throughout the business as appropriate.

The Firm has reviewed the number of directorships held by members of the Board and is satisfied that the arrangements are such that the management body is able to commit sufficient time and resources to perform their obligations in the Firm. The number of directorships held is monitored on an ongoing basis.

4 Management of Risk Framework

4.1 Risk Profile

The principal risk areas which we seek to manage are Credit Risk, Liquidity Risk and Operational Risk, all of which the senior management of the firm believe can be suitably mitigated with the controls it has in put in place.

GHAM's profile of these risks is continually evolving and is generally driven by:

- Changes to the market in which we operate;
- GHAM's strategies and business objectives and;
- GHAM's business/operating models

GHAM will seek to generate positive returns through carefully considered risk taking and robust risk management.

4.2 Risk Appetite

The Directors are responsible for setting the Firm's risk appetite, defining the type and level of risk that the Firm is willing to accept in pursuit of its business objectives.

4.3 Three Lines of Defence

The Firm’s governance structure is designed such that the business is the first line of defence, the compliance function is the second line of defence with the Board representing the third line of defence.

<table>
<tr><td rowspan="4">First line of Defence

Client facing staff</td><td>Strategies and goals</td><td>Firm Values</td><td>Risk Appetites</td></tr>
<tr><td colspan="3">Identification, control and management of risks. Operating requirements: roles and responsibilities, supervision, procedures, systems and controls</td></tr>
<tr><td>Identifying Risks Faced</td><td colspan="2">Identifying Risks Taken</td></tr>
<tr><td colspan="3">Control and Management of Risks</td></tr>
<tr><td rowspan="3">Second line of Defence

Compliance and independent oversight of business</td><td colspan="3">Risk Management Framework</td></tr>
<tr><td colspan="3">Policies and Procedures, Guidance and Training</td></tr>
<tr><td colspan="3">Monitoring</td></tr>
<tr><td rowspan="2">Third Line of Defence

Senior Management/Board</td><td colspan="3">Governance</td></tr>
<tr><td colspan="3">Full accountability for the management of risks</td></tr>
</table>

4.4 Risk Assessment Framework

The Directors are responsible for approving the Risk Assessment Framework, which is used to ensure that the Firm has a comprehensive understanding of its risk profile, including both existing and emerging risks facing the Firm, and to enable it to assess the adequacy of its risk management in the context of the Firm’s risk appetite.

Principal Risks	**Appetite**	**Key Drivers**	**Mitigation**
Strategic Risk			
The risk that arises from decisions that fail to reflect the full business operating environment and the impact of failing to adequately identify changes to the business model.	The Firm will remain competitive by identifying opportunities and assessing the risks, rewards and costs associated with them before proceeding	Regulatory landscape impacting the business Commercial/market conditions Internal business/operating model	Due diligence is carried out prior to any new business opportunity and a full assessment of the potential and actual risks taken into account. Appointment of external compliance consultants
Counterparty Credit Risk			
The risk of financial loss due to the failure of a customer to meet their	The Firm does not deal on own account and hence has no open positions.	Market conditions	The firm is not exposed to counterparty credit risk

Principal Risks	Appetite	Key Drivers	Mitigation
obligations to settle outstanding amounts		Counterparty credit worthiness	
Market Risk			
Risk of losses in on and off balance sheet positions arising from adverse movements in asset values or interest/ exchange rate movements	The Firm does not engage in propriety trading and does not actively seek market exposure.	Volume and complexity of trading Market movements Liquidity	The firm is not exposed to market risk
Liquidity Risk			
The risk that the Firm does not have sufficient liquid resources or is unable to deploy such resources to meet its actual or potential obligations in a timely manner as they fall due	The Firm will have sufficient and accessible financial resources to meet any financial obligations as they fall due	Operational risk Credit risk events Internal business operating model	Periodic reviews of financial performance and resources Contingency funding arrangements in place
Operational Risk			
The risk of loss resulting from inadequate or failed internal processes	Our appetite for process failures is low. We will deploy resources as necessary to ensure each client receives best in class service at all times	Regulatory regime Legislative framework	Training is provided to all employees Use of a team structure to service each client Regular monitoring of changes in law and the implications to the Firm's procedures Internal appointment of qualified Compliance professionals

5 Capital Adequacy and ICAAP

The Firm's overall approach to assessing the adequacy of its internal capital is documented in the Internal Capital Adequacy Assessment Process ("ICAAP").

The ICAAP process includes an assessment of all material risks faced by the Firm and the controls in place to identify, manage and mitigate these risks. The risks identified are stress-tested against various scenarios to determine the level of capital that needs to be held.

Where risks can be mitigated by capital, the Firm has adopted the CRD requirements for Pillar 1. Where the Board considers that the Pillar 1 calculations do not adequately reflect the risk, additional capital is added on in Pillar 2.

Whilst the ICAAP is formally reviewed by the Board once a year, Senior Management review risks and the required capital more frequently and will particularly do so when there is a planned change impacting risks and capital or when changes are expected in the business environment potentially impacting the ability to generate income.

5.1 Capital Resources

The Firm is a BIPRU firm because it manages individual funds and does not provide safekeeping and administration of financial instruments or deal in any instruments on its own account.

A BIPRU firm must maintain at all times capital resources equal to or in excess of the base requirement (€50,000). The Pillar 1 capital requirement for a BIPRU firm is the highest of:

1. Base Capital Requirement
2. Credit Risk plus Market Risk plus Counterparty Risk Capital Requirements
3. Fixed Overhead Requirement

The Firm has no innovative Tier 1 capital instruments or deductions.

The Firm must maintain at all times capital resources equal to or in excess of the Pillar 1 requirement. During the period to 31 December 2015, the Company complied fully with all capital requirements and operated well within regulatory requirements. At the accounting reference date, the Firm held the following capital position:

Description	Amount (£'000)
Ordinary share capital	2,500
Retained Earnings	(404)
Core Tier 1 Capital	2,096
Tier 2 Capital	0
Deductions	0
Total Capital Resources	2,096
Credit Risk Capital Requirement @ 8%	54
Market Risk Capital Requirement @8%	0
Fixed Overhead Requirement	133
Total Pillar 1 Requirement	133
Total Pillar 2 Requirement	0
Base Capital Requirement (using an exchange rate of 1.3605)	37

Description	Amount (£'000)
Total Capital Requirement	133
Surplus capital over minimum requirement	1,963

The Board is therefore comfortable that the Firm is, and has been throughout the financial year, adequately capitalised for Pillar 1 purposes. The Firm holds approximately £2.26m in cash and cash equivalents as at 31 December 2015. The Directors are comfortable that this level of cash ensures sufficient liquidity is maintained within the business.

The Board constantly monitors the performance of the Firm and capital adequacy is regularly assessed by them. The Board will also monitor risks throughout the year and decide if additional capital should be held against them. Additional risks that supplement the Pillar 1 requirements are detailed below and, where necessary, additional capital will be provided.

5.2 Credit risk

GHAM uses the standardised approach for computing Credit risk. Consequently, the capital requirement is computed as 8% of the total risk weighted exposure amounts. The breakdown of the credit risk capital component is as shown below:

Consolidated credit risk	£'000
Institutions	2,260
Risk Weight	20%
Risk weighted asset (A)	*452*
Corporates	218
Risk Weight ^	100%
Risk weighted asset (B)	*218*
Total Risk weighted exposure amount	*670*
Credit risk capital component @ 8%	**54**

5.3 Market Risk

Market risk is defined as the vulnerability of the Firm to movements in the value of financial instruments. However, as GHAM Ltd does not engage in proprietary trading and consequently, does not have any open positions, it has no Market Risk.

In addition, the directors note the following-

- All trades are to be fully covered by client funds under the control of GHAM
- Dealing controls will implement a 'four-eyes' principal on all trades

5.4 Operational risk

GHAM's Fixed Overhead Requirement (FOR) is disclosed as a proxy for the Pillar 1 Operational Risk Capital calculation. It equates to one quarter of the firm's relevant annual fixed expenditure. This is currently £133k.

5.5 Liquidity Risk

Liquidity risk is the risk of not being able to meet our financial obligations as they fall due.

This is highly unlikely as:

- A significant proportion of assets are liquid i.e. cash balances held with top rated financial institutions
- We monitor our bank balance on a regular basis
- There is no security or pledge being placed on our assets
- Infusion of more than sufficient capital at authorisation to see the company through the J-Curve
- The Parent company of GHAM is willing and able to make additional capital available should the need arise

Liquidity Risk could however arise where the income and revenue streams are either lost completely or are severely reduced. Revenue could be reduced or stopped for a number of reasons. These include, but are not limited to, a marked turndown in the market for a prolonged period or a continued period of recession.

Where a reduction, or erosion, of revenue is experienced by GHAM, it would still be required to service its fixed overheads. This risk is mitigated by the fact that employment contracts are with the immediate parent of GHAM, Gresham House Holdings Ltd (GHHL). Service agreements for other operational areas have been entered into by the parent company, GH Plc with an intercompany group charge then passed on to GHAM in both instances. Hence, there is no liability at the GHAM level. Notwithstanding this group arrangement, GHAM does not expect a wind down exceeding three months. Hence, capital has been held greater than 25% of annual fixed overheads.

6 Non required disclosures

BIPRU 11.5.5 and 11.5.6- This disclosure is not required as GHAM has no retail or equity exposures. It has also adopted the standardised approach to Credit risk.

BIPRU 11.5.7- This disclosure is not required as GHAM does not have a trading book.

BIPRU 11.5.10 & 11- This disclosure is not required as GHAM uses the Simplified method of calculating risk weights.

BIPRU 11.5.13- This disclosure is not required as GHAM does not use a VaR model for calculating Market Risk Capital Requirement.

BIPRU 11.5.15- This disclosure is not required as GHAM does not have a non-trading book exposure to equities.

BIPRU 11.5.17- This disclosure is not required as GHAM does not securitise its assets.

7 Remuneration Policy

GHAM's Remuneration Policy complies with the Remuneration Code in relation to its size, nature, scope and complexity of our activities.

The Policy is aligned to the Firms' business strategy, objectives, values and long term interests in respect of performance and effective risk management in line with the Firm's risk appetite.

Staff and directors are paid employed by GHHL and then charged on to GHAM. Remuneration policies within the GH group are determined by the Remuneration Committee of GH.

In respect of 2015, the Remuneration Committee was responsible for setting the Firm's Remuneration policy. 2015 was the year when the firm was established and for most of the period, staff and directors were involved in establishing the business, obtaining regulatory approval, developing the GHS relationship and working on new products to be launched subsequently.

GHAM had only one client and only 5 months of fee income in the period.

Variable remuneration comprised bonuses and pension contributions. It was based on long-term performance, the firm's overall results, financial and non-financial criteria. In future, the Board of the firm and the Remuneration Committee may review the basis of rewards within GHAM. The Firm does not have separate business areas.

Total remuneration paid out to members of staff whose actions have a material impact on the risk profile of the firm are as follows:

Categories	**Number of staff**	**Fixed (£)**	**Variable (£)**
Code Staff	**5**	£532,375	£411,666
Total		**£532,375**	**£411,666**