Gresham House Asset Management Ltd

Pillar III Disclosure

December 2018

Contents

1 Introduction ... 3
1.1 Frequency and location of disclosure ... 3
1.2 Verification ... 3
1.3 Materiality ... 3
2 Responsibilities ... 3
3 Business Model ... 4
4 Management of Risk Framework ... 4
4.1 Risk Appetite ... 4
4.2 Three Lines of Defence ... 4
4.3 Risk Profile ... 4
5 Capital Adequacy and Assessment ... 8
5.1 Capital Resources ... 8
5.2 Credit and Market risk ... 9
6 Non-required disclosures ... 9
7 Remuneration Policy ... 10
8 Breaches of Pillar III ... 10

1 Introduction

The Capital Requirements Directive ('CRD') of the European Union created a regulatory capital framework 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 Pillar 3 Disclosures for Gresham House Asset Management Ltd (the "Firm") is set out below as required by the Financial Conduct Authority's "Prudential Sourcebook for Banks, Building Societies, and Investment Firms" (BIPRU). The rules in the FCA Prudential Sourcebook for BIPRU sets out the requirements for a Pillar 3 disclosure. The document is designed to meet the Firm's Pillar 3 Disclosure obligations.

Unless otherwise stated, all figures are based on the audited annual accounts of the firm for the year ended 31 December 2017.

1.1 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 will be published on the Firm's website.

1.2 Verification

The information contained in this disclosure document has not been and is not required to be audited by the Firm's external auditors, and does not constitute any form of financial statement. It should not be relied upon in making any judgement on the Firm.

1.3 Materiality

The Firm regards information as material in disclosures if its omission or misstatement would change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from the Pillar 3 disclosure. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

Investment firms may omit required disclosures where they believe that the information is proprietary or confidential. The Firm has made no omissions on the grounds that it is immaterial, proprietary or confidential other than as may be disclosed in the statutory accounts.

2 Responsibilities

The Board of the Firm is responsible for the Firm's risk management and ensuring that the Firm's 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 Management Body 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 Management Body propagated down throughout the business as appropriate.

The Firm has reviewed the number of directorships held by members of the Management Body and are 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.

3 Business Model

The Firm is a fully owned subsidiary of Gresham House Plc, a quoted specialist alternative asset management group (GHE.LN) that provides funds, direct investments and tailored investment solutions including co-investment. It currently advises funds and individual clients across a range of investment classes including Strategic Equity and Real Assets. The Firm carries out all the regulated activities of the Group.

This disclosure relates to the business of Gresham House Asset Management Ltd only.

4 Management of Risk Framework

4.1 Risk Appetite

The Management Body 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.

4.2 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 Internal Audit representing the third line of defence.

BOARD OF DIRECTORS			
First line of defence Business Operations	**Risk ownership** This covers functions that own and manage risks, primarily frontline operations staff. In the first line, risk management is embedded into the activities of each business area and assigned to individual risk owners who ensure that the risks as assigned to them are effectively supervised and managed.	External Audit	Regulatory Authorities
Second line of defence Risk & Compliance	**Oversight/Challenge/Support for first line** These cover functions that implement the risk management system, providing for continuous risk identification, assessment, monitoring and reporting. It also supports the first line in ensuring that the risks encountered are effectively managed.		
Third line of defence Internal Audit	**Independent Assurance** This function implements assurance processes linked to key business risks and processes and provides recommendations to the Board.		

4.3 Risk Profile

The Firm, as part of the Gresham House Group, follows a structured approach to the management of risks. We do this using a documented risk management framework. Underpinning the framework are the following principles:

1. 'Risks are Owned': Governance and Culture. There are clear and defined responsibilities across all levels of the organisation. Ultimate responsibility resides with the Board of Directors.

2. 'Risks are made visible': Risk identification and prioritisation. There is a process in place to identify applicable risks and rank them based on their likelihood and impact.
3. 'Risks are discussed and understood': Risk Appetite, Tolerance and Limits. The Firm accepts that risk is inherent in its business activities and seeks to maintain a risk profile that delivers the best potential growth within acceptable risk levels.
4. 'Appropriate Action is taken': Risk Management and Controls. Once risks have been identified and their exposure assessed, consideration is given to the controls and other mitigation strategies that can be applied to manage the risks appropriately and within the agreed risk tolerance.
5. 'The Firm learns from its risk taking': Risk Reporting and Communication. Risk reporting is integral to the Firm's risk management framework and takes place at a number of different levels throughout the business. It provides senior management, the Board and relevant external parties with sufficient information to enable them to assess Management of risks in line with strategic objectives and agreed risk tolerances; and the effectiveness of the control environment.

The Board of directors is responsible for the overall management of risk within the Firm.

The Directors have identified the following core risks within the business and put in place the mitigation controls described:

Principal Risks	Appetite	Mitigation
Strategic Risk		
The risk that the Board may set a strategy that does not align with shareholders' expectations	The Firm will remain competitive by identifying opportunities and assessing the risks, rewards and costs associated with them before proceeding	Open communications between the management of the Group and major shareholders on strategy. Clear correspondence with existing and potential investors for each launched fund stating investment objectives and other fund details. An annual business plan is defined at the start of the new financial year which includes financial forecasts. These forecasts are reviewed and approved by the Board. An Annual Report is published and available to shareholders and other stakeholders which highlights the Board's view of the previous year and expectations for the coming financial period.
Loss of Key Personnel Risk		
The Company's development and prospects are dependent upon the service and performance of the directors and senior management. The loss of the services of any of the directors or senior management could cause	The Firm is committed to hiring and retaining top talent.	The Board has constituted a Remuneration Committee which regularly reviews remuneration levels to ensure they remain competitive and align management with the long-term success of the Company through deferred awards. Minimum notice periods are included in key persons' contracts of employment to ensure any departures are efficiently managed.

Principal Risks	Appetite	Mitigation
disruption to the strategic objectives and day-to-day operations of the Group.		Succession planning is in place to ensure there is cover for key roles in the event of loss of services of any of the directors or senior management.
Conduct Risk		
As the Group expands to include more companies and employees, there is the risk that these new persons are not properly integrated into the culture and operations of the Group leading to an increased risk of poor conduct.	The Firm is committed to acting right by its clients and has no tolerance for actions that cause or could cause client detriment or weaken the integrity of the markets in which we operate.	All employees are issued with the compliance manual and relevant policies to ensure they are apprised of their obligations in all aspects of the Group's activities. Acknowledgment of receipt and agreement to abide by the policies are also required of all employees. Ongoing compliance monitoring takes place to detect any breaches that have occurred of the Group's policies. A remuneration policy is in place that incorporates the remuneration principles, discourages excessive risk taking and strikes an appropriate balance between fixed and variable pay. Whistleblowing arrangements are in place and have been communicated to staff.
Breaches Risk		
Companies in the Group have a number of regulatory obligations as issued by the FCA, the Exchange and other regulatory bodies. There is the risk that the Group breaches its obligations under the various regulations	The Firm is committed to avoiding any breaches of its regulatory obligations.	A comprehensive set of compliance policies and procedures have been approved and issued to staff to guide their various activities. Periodic training to staff is in place to ensure all staff are aware of the requirements and their obligations in meeting those requirements. Professional advisers have been engaged to provide advice to the executive team on varying regulatory subjects.
Macroeconomic Risk		
This is the risk of an adverse impact on our revenue and profitability from an economic downturn. Brexit and other risks to the UK economy could negatively impact demand for our services, leading to reduced Assets Under Management (AUM), and	The Board and Management Committee regularly review the economic landscape to identify any emerging risks that have a significant impact on the Group and ensure active steps are taken towards mitigating their impact.	The Group has diversified its portfolio to include New Energy assets. This will complement the existing Strategic Equity and Real Assets divisions. The Investment Committee terms of reference also includes thresholds for concentration risk. Adherence to these thresholds are monitored by the LPs of managed funds and/or the Board within the terms of the mandate.

Principal Risks	Appetite	Mitigation
ability to take advantage of new investment opportunities.		
Investment Risk		
The risk that investments deviate from expected performance due to systematic and/or unsystematic factors.	The Firm monitors the investments of its underlying funds in order to ensure any deviations from expectation is promptly addressed.	The listed funds in the Group publish NAVs on a regular basis which ensures their performance is monitored. Each fund has a dedicated fund manager which ensures performance is closely monitored and action can be proactively taken if necessary. Investment Committees review proposed investments in detail and provide external challenge and rigour to the investment process. Some of the funds have board seats in investee companies (the private entities) which will ensure the Group has up to date and appropriate information on the performance of those entities.
Operational Risk		
The potential increase in risk caused by a reduction in the Firm's own funds through expected or realised losses.	Our appetite for process failures is low. We will deploy resources as necessary to ensure processes are carried out as designed with minimal disruption	Suitable and appropriate governance arrangements have been put in place including the establishment of an Operations Committee which meets bi-weekly to discuss operational matters. Key issues and decisions are escalated to the Board. New recruits are provided with adequate training on the Firm's internal processes to ensure they are conversant with them. The Firm engages suitably qualified third parties in all outsourcing arrangements and carries out regular due diligence on these third parties.
Liquidity Risk		
The risk of insufficient liquidity within the Firm to meet its financial obligations as they fall due	The Firm will have sufficient and accessible financial resources to meet any financial obligations as they fall due	The Firm maintains minimum levels of liquidity at all times to support working capital requirements. Liquidity forecasts are prepared with adequate measure put in place to ensure future cash flows are appropriately provided for.

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

- Changes to the market in which it operates;
- The Firm's strategies and business objectives and;
- The Firm's business/operating models

The Firm seeks to generate positive returns through carefully considered risk taking and robust risk management.

5 Capital Adequacy and Assessment

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 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 Management Body 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 Management Body once a year, Senior Management review risks and the required capital more frequently and will particularly do so when there is a planned change to business activity that impacts 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 subject to BIPRU requirements for the purposes of the Pillar III disclosures as of 31 December 2017. The Pillar 1 capital requirement for a BIPRU firm is the higher of:

- Base Capital Requirement OR
- Credit Risk plus Market Risk plus Counterparty Risk Capital Requirements OR
- 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 12 month accounting period to 31 December 2017, 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	4,473
Retained Earnings	(970)
Less intangible assets	(1,344)
Core Tier 1 Capital	2,159
Tier 2 Capital	0
Total Capital Resources (X)	2,159
Credit Risk Capital Requirement (A)	159
Market Risk Capital Requirement (B)	0

Description	Amount (£'000)
Fixed Overhead Requirement (C)	869
Total Pillar 1 Requirement [D= higher of (A+B) and C]	869
Base Capital Requirement (€50k using ECB GBP-EUR rates) (E)	44.36
Total Capital Requirement [Y= higher of D and E]	869
Surplus capital over minimum requirement [X – Y]	1,290

The Management Body are therefore comfortable that the Firm is, and has been throughout the financial year, adequately capitalised for Pillar 1 purposes. The Firm held approximately £1.1m in cash and cash equivalents as at year end. The Management Body is comfortable that this will ensure prudent capitalisation and cover for market downturns and other risks that may materialise in the short to medium term.

The Management Body constantly monitors the performance of the Firm and capital adequacy is regularly assessed. The Firm will also monitor risks throughout the year and decide if additional capital should be held against these risks.

5.2 Credit and Market risk

The Firm uses the standardised approach for computing Credit and Market risk. Consequently, the capital requirement is computed as 8% of the total risk weighted exposure amounts. The Firm had no market risk exposures as of 31 December 2017. Credit risk exposures are as summarised in the table below:

All figures in £'000	Exposure Value	Risk weight	Risk weighted exposure Amount	Capital requirement (@ 8%)
Institutions	1,088	20%	217.6	17.4
Corporates	1,764	100%	1,764.1	141.1
TOTAL				**158.5**

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

The Firm'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.

Remuneration policies within the Gresham House Group are determined by the Remuneration Committee of Gresham House Plc.

Remuneration comprises Basic and Variable remuneration. Variable pay is made up of bonuses and pension contributions. It is determined on the basis of the employee's individual performance, Group's overall results, financial and non-financial criteria, and is awarded to align the long-term interests of the employee with that of the Firm.

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

Categories	**Number of employees**	**Basic Pay (£'000)**	**Variable pay (£)**
Senior management	8	1,144	698
Other remuneration code staff	8	645	171
Total	16	1,789	869

8 Breaches of Pillar III

Any breaches of the BIPRU rules will be recorded on the Firm's breach log in conjunction with its Regulatory Breach procedure. There have been no breaches of BIPRU rules in the year to 31 December 2017.