Gresham House Asset Management Ltd

Pillar III Disclosure

August 2021

Since 1857
Gresham House
Specialist asset management

Contents

Gresham House
Specialist asset management

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 (GHAM), TradeRisks Limited (TRL) and Residential Capital Management Limited (RCML), (collectively the "Group") has been prepared on a consolidated basis as part of the Gresham House Group Holdings. Gresham House plc (A London Stock Exchange quoted specialist alternative asset manager offering funds) is the ultimate parent company of the three regulated subsidiaries stated above and each Group(s), which are registered with and regulated by the Financial Conduct Authority. Residential Capital Management Limited currently acts as alternative investment fund manager for Residential Secure Income plc (ReSI), a real estate investment trust and Alternative Investment Fund listed in the Main Market of the London Stock Exchange.

This document has been prepared by the "Group" or "GHAM") as required by the Financial Conduct Authority's "Prudential Sourcebook for Banks, Building Societies, and Investment Firms" (BIPRU), specifically BIPRU 11.3.3R. 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 Group'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 2020.

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 Group's website.

1.2 Verification

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

1.3 Materiality

The Group 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 Group deems a certain disclosure to be immaterial, it may be omitted from the Pillar 3 disclosure. If the Group 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 Group has made no omissions on the grounds that it is immaterial, proprietary or confidential other than as may be disclosed in the statutory accounts.

Gresham House
Specialist asset management

2. Responsibilities

The Boards of the Group's companies are responsible for the Groups' risk management and ensuring that the Groups' risk exposure are managed in line with the Groups' overall business objectives and within its stated risk appetite. This include the governance of the process for identifying, evaluating, managing and reporting the significant risks faced by the Group.

The GHAM Board is ultimately responsible for ensuring that the Group 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 GHAM Board propagated down throughout the business as appropriate.

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

3. Business Model

The Group's companies are fully owned subsidiaries 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 Group carries out all the regulated activities of the Group.

This disclosure relates to the business of Gresham House Asset Management, TradeRisks Limited and Residential Capital Management Limited.

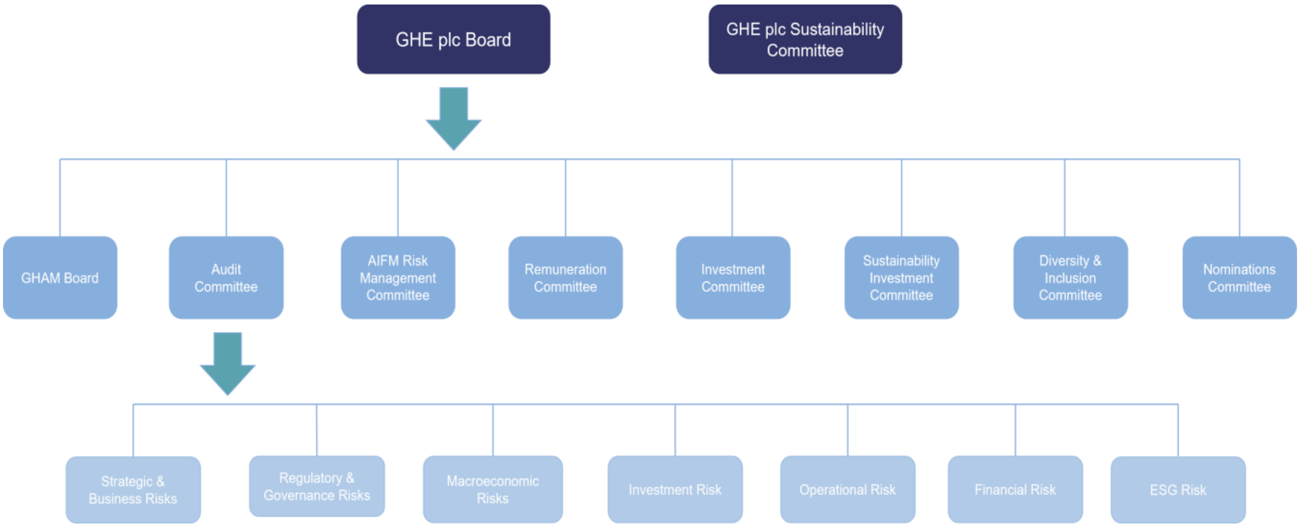
4. Management of the Enterprise Risk Framework

4.1 The ERM Framework

The Gresham House plc (GHE plc) Board is responsible for the effective management of risks across the Group and considers the effective management of these risks and opportunities as central to the achievement of its long-term objectives. The GHE plc Board is also responsible for determining risk strategy, setting the Group's risk appetite after considering recommendations received from the GHE plc Audit Committee to ensure risk is monitored and controlled effectively and promotes an overall culture of effective risk management throughout the business while delegating the day-to-day risk management responsibilities to the GHAM Board of Directors.

The Enterprise Risk Management Framework (ERM Framework) sets out the risk governance structure, risk appetite and risk assessment processes, policies and procedures, periodical risk reporting and assurance arrangements across the Group.

The diagram below highlights the Group risk governance structure and principal risk categories. There are several sub-categories of risks which have been assessed via the Group internal capital adequacy assessment procedure, including but not limited to credit risk, liquidity risk, market risk, people risk and conduct risk.



4.2 Risk Profile

The Group risk management structure contains five key pillars of risk management: Risk identification and prioritisation, risk ownership, risk appetite tolerance and limits, risk management and mitigation controls and risk reporting and assurance. The GHE Board is responsible for setting the Group's risk appetite, defining the type and level of risk that the Group is willing to accept in pursuit of its business objectives.

The internal controls have been designed and put in place to manage the identified risks within the risk tolerance, setting limits which are considered acceptable across all business lines. Risk tolerance represents the quantitative expression of risk appetite which sets the threshold for risks which the Group considers acceptable based on its capabilities to manage the identified risks. The Group's overall risk tolerance varies from low to medium. The Group follows a structured approach to the management of risks. We do this using a documented Enterprise Risk Management framework. Underpinning the framework are the following principles:

'Risks ownership': Governance and Culture. There are clear and defined responsibilities across all levels of the Group. Ultimate responsibility resides with the GHE plc Board of Directors.

'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

'Risks are discussed and understood': Risk Appetite, tolerance and limits. The Group 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.

'Appropriate Action is taken': Risk management and mitigation 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.

'The Group learn from its risk taking': Risk reporting, assurance and communication. Risk reporting is integral to the Group'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.

Gresham House
Specialist asset management

4.3 Risk appetite

The GHE plc Board have identified the following core risks within the business and put in place the internal controls described:

Each risk appetite statement has been evaluated using a combination of qualitative and quantitative assessments proportionate to the risk identified and aim to manage each risk from a strategic, financial, operational, regulatory, reputational and ESG perspective.

Principal Risks	Risk Appetite Statement	Mitigation Controls
Strategic Risk		
The Board pursue a strategy that fails to meet shareholder objectives or fails to execute the stated business strategy.	The Group has low tolerance to strategic risk failures. The Group reviews the business plan and strategy at the start of the new financial year and communicates the strategy to all stakeholders through the annual report, website content, RNS announcements and other marketing materials. Ongoing review of the business strategy is performed via regular board meetings.	The Gresham House five-year plan, GH25, was communicated to shareholders and stakeholders in 2020 as reviewed and approved by the Board. An annual business plan is defined at the start of the new financial year, which includes the approval of the Group budget for the upcoming year. Regular Board meetings are used as a forum to review the set strategy against performance and forecasts being achieved by the Management Committee and Divisional Heads. Proactive engagement with new and existing shareholders to understand their key drivers and needs for investing in the Group. During the pandemic regular and open communications took place between the Board, Management Committee, shareholders and stakeholders to manage strategic risk during 2020.
Loss of Key Personnel Risk		
The Group's development and prospects are dependent upon the service and performance of the directors and senior	The Group is committed to hiring and retaining top talent and has low tolerance to loss of key personnel risk. Our people are integral to all that Gresham House achieves. We assess and evaluate our teams' needs at least annually by	Remuneration levels are regularly reviewed to ensure they remain competitive and align key individuals with the long-term success of the company through deferred awards. The Remuneration Policy discourages excessive risk taking

Principal Risks	Risk Appetite Statement	Mitigation Controls
management. The loss of the services of any of the directors or senior management could cause disruption to the strategic objectives and day-to-day operations of the Group.	requesting feedback, conducting employment surveys, engaging via professional social media and take onboard all feedback received when reviewing our company culture, recruitment, and retention management strategies. Our culture of empowerment, encourages individual flair and entrepreneurial thinking, enables us to design and implement innovative investment solutions capable of building a sustainable future.	and strikes an appropriate balance between fixed and variable pay. Minimum notice periods are included in key persons' contracts of employment to ensure any departures are efficiently managed to minimise disruption. 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.
Acquisition risk		
As the Group pursues an acquisition growth strategy as well as organic growth, there is the risk that the synergies and other benefits envisaged prior to the acquisition do not materialise.	The Group has medium tolerance to acquisition risk. The GH25 five-year strategy incorporates both organic and acquisition growth and acquisitions form a part of delivering the business strategy	Acquisitions follow a structured process involving senior management and consultations with significant external stakeholders. Dedicated resources assigned to design and implement detailed integration plans for the acquired entities' people, processes and systems. All acquisitions involve a thorough due diligence exercise involving professional advisers as necessary to minimise uncertainty, concluding in an approval requirement from the Gresham House Investment Committee and the Board.
Regulatory and governance risks		
Conduct Risk The risk of poor outcomes to stakeholders arising from deliberate or negligent actions by the Group or its employees. **Breaches Risk** The risk that the Group breaches its obligations under the various	The Group has no tolerance to conduct risk that could cause client detriment or weaken the integrity of the markets in which we operate. The Group is committed to observing its obligations under the various regulations	Conduct risk management is lead from the top by the Board. The FCA regulated entities in the Group have a Board made up of division leaders and the Management Committee. Quarterly Board meetings are used to review breaches, updates in the compliance environment, capital adequacy, FCA reporting (GABRIEL) and other regulatory matters. Regular training and communications across

Principal Risks	Risk Appetite Statement	Mitigation Controls
regulations. The Group operates in a heavily regulated environment where legal and regulatory requirements are frequently updated.		the Group on applicable regulatory obligations. With the introduction of the Senior Managers and Certification Regime, this has been further embedded through specific conduct rules training. There is an independent compliance department to regularly monitor, identify and report any actual or potential breaches using our compliance monitoring programme. Robust whistleblowing arrangements are also in place.
Macroeconomic Risk		
This is the risk of an adverse impact on the Group's revenue and profitability from an economic downturn. The pandemic is impacting economic activities which may result in slow recovery for many sectors. The Group has significant exposure to the UK economy. The Brexit deal agreed with the EU at the end 2020 will impact the Group's ability to expand into Europe as well as impact certain portfolio companies within the funds the Group manages.	The Group manages and advises a number of funds, which have varying degrees of macroeconomic exposure. The mix of exposure is considered as part of the Group's strategy to grow as an asset manager, therefore the risk tolerance to macroeconomic risk is medium.	The Group manages investments in reasonably uncorrelated asset classes such as Forestry and Renewables which have remained attractive to investors in the event of an economic downturn, such as the pandemic. The investor base of the Group is also growing, enabling diversification and mitigation of concentration risk. The Group has a robust capital position which is stress tested regularly, concluding that the Group is able to manage challenging periods of market instability. We closely monitor the management of macroeconomic risks and the impact on our investment strategies and stakeholders. The Group has limited exposure to Europe as managed assets are primarily domiciled in the UK. The Group has agreed the acquisition of Appian Asset Management Limited, a full scope EU AIFM, which will enable the Group to continue its international expansion ambitions, when regulatory approval has been granted.
Investment Risk		

Principal Risks	Risk Appetite Statement	Mitigation Controls
The risk that actual performance by funds managed by the Group deviate from expected performance due to systematic and/or unsystematic factors, including insufficient pipeline	The Group has low tolerance to investment risk and monitors the investments of its underlying funds in order to ensure any deviations from expectation is promptly addressed.	Each fund has a dedicated fund manager which ensures performance is closely monitored and action can be proactively taken if necessary. Investment Committees made up of leading independent industry experts who provide robust review and challenge of proposed new investments by the funds During periods of market volatility, the Group increases its monitoring activities, especially across portfolios which may be impacted by the effects of the pandemic Appointment of internal persons to board seats in private investee companies which will ensure the Group has up to date and appropriate information on the performance of those entities Group AIFM Portfolio Risk Committee maintains oversight through the quarterly AIF fund review process.
Tax Efficient Product Risk		
Some of the Group's products are in tax efficient products, which could be subject to a change in government policy.	The Group has low tolerance to tax efficiency product risk and conducts regulatory horizon scanning and clear disclosures to investors.	Clear disclosure in promotional materials on risks and status of investment assets and that independent professional advice should be sought when investing. The investment thesis on forestry is not predicated on the tax regime, hence investors' objectives are likely to still be met in the event of a tax law change should for example inheritance tax considerations be removed for forestry. The VCT funds promote investment in early-stage companies and at a time when the government wants to promote growth in the economy it is considered unlikely that these tax advantages would be removed.

Principal Risks	Risk Appetite Statement	Mitigation Controls
		Regulatory scanning is conducted regularly.
Operational Risk		
Failure of processes and systems		
The risk of significant failures to internal processes and systems. **Cyber risk** The risk that the Group's systems are accessed by unauthorised persons and client data is breached.	The Group has low tolerance to failure of processes and systems and has put in place appropriate systems and controls including robust business continuity arrangements to ensure operational stability and effectiveness.	The Operations Committee addresses operational matters with regular reporting to the Board. The Group engages suitably qualified third parties in all outsourcing arrangements and carries out regular due diligence on these third parties. Annual IT audits are conducted by independent third-party IT security providers, including phishing and penetration testing. Restricted access to systems is in place. Refresher training on data protection and cyber security, including cyber fraud prevention. Annual business continuity plan maintenance and testing to ensure resilience of the Group's and critical third-party systems. Achievement of ISO9001 certification ensuring documentation and consistent application of processes across the Group. With teams working from home for a large part of 2020, the threat of cyber risk to systems has increased; with appropriate controls and training to employees this risk was mitigated to normal levels. We manage cyber risk as part of our operational resilience.
Health and safety risk		
The Group's management of alternative assets including forestry and energy, means there is the risk of injury or ill	The Group has low tolerance to health and safety risk and has in place policies, systems and controls designed to mitigate this risk.	Engagement of suitable, authorised third parties to manage operational assets of the managed funds.

Principal Risks	Risk Appetite Statement	Mitigation Controls
health to employees arising in the course of the execution of day to-day responsibilities. During 2020, the risk to employees' health and safety at work increased due to the effects of the pandemic.		Maintenance of appropriate Group wide and funds insurance covering personal injury. Safety training to operational staff and establishment of clear operational procedures. Our operational management of health and safety has been tested in 2020. AIFM portfolio risk management committee review any health and safety issues on a quarterly basis. Training is provided to the Board of Directors, employees and contractors on appropriate conduct at these sites as well as when working from home.
Financial risk		
Capital and Liquidity Risk		
The risk of insufficient liquidity within the Group to meet its financial obligations as they fall due. Liquidity risk in relation to funds is the risk that redemptions or other obligations as they arise cannot be met.	The Group has low tolerance to capital and liquidity risk and will have sufficient and accessible financial resources to meet any financial obligations as they fall due.	The Group ensures it exceeds minimum levels of liquidity at all times to support working capital and regulatory minimum requirements through monthly reviews by Finance, the CFO and Compliance. An ICAAP is prepared for regulated entities within the Group to assess capital requirements and ensure sufficient capital is maintained to cover those risks under normal and stressed market conditions. Liquidity forecasts are prepared across the Group with adequate measures put in place to ensure future cash flows are appropriately provided for. The Group has a revolving credit facility available to cover short term liquidity needs. Liquidity is actively managed across funds by ensuring the funds do not invest outside of their mandate in unlisted assets, do not have a concentrated exposure to single

Principal Risks	Risk Appetite Statement	Mitigation Controls
		security and hold a reasonable level of cash.
ESG Risk The risk of inappropriate ESG risk management at Group level and adverse impact on climate change.	The Group has low tolerance to capital and liquidity risk and has implemented sustainable investment policies across all its investments strategies	In the second half of 2020, the Group appointed a Sustainable Investment Director to drive the ESG investment integration across all our business lines. As the UK transitions towards a net zero economy, we are planning to enhance our climate data metrics and governance for the disclosure of our investment solutions' exposures and performance of climate-related risks and opportunities. As a financial market participant, we recognise our responsibility to contribute to a resilient financial market system. We have in place a Sustainable Investment Framework (SIF) which explains how we integrate Environmental, Social and Governance considerations into our selection, evaluation, governance and engagement processes across the lifecycle of each investment. Our Sustainability Risk Management Model will be integrated into our ERM Framework taking both a top-down and bottom-up risk management approach. The ten ESG themes in our SIF represent our sustainable investment risks and will form part of our quarterly risk monitoring and reporting activities. The Group is a signatory of the Principles for Responsible Investment which requires the submission of an annual responsible investment activities report. In 2020, the Group achieved A+ for Strategy and Governance, A+ for Infrastructure and A for Strategic Equity. The Group was also awarded the Green Economy Mark by the London

Principal Risks	Risk Appetite Statement	Mitigation Controls
		Stock Exchange in recognition of its contribution in driving the global green economy. The Group is also a signatory of the UK Sustainable Investment and Finance Association, the Financial Reporting Council and Pensions for Purpose and continually strive to deliver our sustainability commitments to the above organisations.

- The Group's profile of these risks is continually evolving and is generally driven by:
- Changes to the market in which it operates
- The Group's strategies and business objectives
- The Group's business/operating models
- The Group seeks to generate positive returns through carefully considered risk taking and robust risk management.

5. Capital Adequacy and Assessment

The Group'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 Group 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 Group has adopted the CRD requirements for Pillar 1. Where the Group 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 GHAM 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 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 Group is subject to BIPRU requirements for the purposes of the Pillar III disclosures as of 31 December 2020. 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 Group has no innovative Tier 1 capital instruments or deductions.

The Group 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 2020, the Company complied fully with all capital requirements and operated well within regulatory requirements. At the accounting reference date, the Group held the following capital position:

Description	Amount (£'000)
Ordinary share capital	43,200
Retained Earnings	1249
Less intangible assets	(25,854)
Core Tier 1 Capital	18,595
Tier 2 Capital	0
Total Capital Resources (X)	18,595
Credit Risk Capital Requirement (A)	1,046
Market Risk Capital Requirement (B)	0
Fixed Overhead Requirement (C)	5,234
Total Pillar 1 Requirement [D= higher of (A+B) and C]	5,234
Base Capital Requirement (zero for consolidated) (E)	0
Total Capital Requirement [Y= higher of D and E]	5,234
Surplus capital over minimum requirement [X – Y]	13,361

The GHAM Board is therefore comfortable that the Group is, and has been throughout the financial year, adequately capitalised for Pillar 1 purposes. The Group held approximately £13.6m in cash and cash equivalents as at year end. The GHAM Board 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 GHAM Board constantly monitors the performance of the Group and capital adequacy is regularly assessed. The Group will also monitor risks throughout the year and decide if additional capital should be held against these risks.

5.3 Credit and Market risk

The Group 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 Group had no market risk exposures as of 31 December 2020. Credit risk exposures are as summarised in the table below:

	Risk weighting	£
Exposure to rated institutions		
Bank balance	20%	13,650,083
Risk weighted amount		*2,730,017*
Other exposures to corporates		
Other debtors	100%	10,344,638
Risk weighted amount		*10,344,638*
Total credit risk weighted amount		13,074,655
Credit risk requirement (standardised approach) @ 8%		1,045,972

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 Group'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 Groups' business strategy, objectives, values and long-term interests in respect of performance and effective risk management in line with the Group'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 Group.

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

Categories (all figures in £'000)	Number of employees	Basic Pay	Variable Pay
Senior management	10	2,380	4,980
Other remuneration code staff	18	2,583	2,418
Total	28	4,963	7,398

8. Breaches of Pillar III

Any breaches of the BIPRU rules will be recorded on the Group's breach log in conjunction with its Regulatory Breach procedure. There have been no breaches of BIPRU rules in the year to 31 December 2020.