Gresham House Asset Management Ltd

Pillar III Disclosure

December 2019

Contents

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" or "GHAM") 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 2018.

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 GHAM 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 GHAM Board propagated down throughout the business as appropriate.

The Firm 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 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 GHAM Board is 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 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 Firm. 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 GHAM Board 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	Regular and open communications between the management of the Firm and major shareholders of the parent company on strategy. Clear and regular correspondence with existing and potential investors for all vehicles managed by the Firm. Clear product information documentation is issued regularly to support decision-making by new and existing investors. 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.
Loss of Key Personnel Risk		
The Firm'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 disruption to the strategic objectives and day-to-day operations of the Firm.	The Firm is committed to hiring and retaining top talent.	A Remuneration Committee exists at the level of the parent company, Gresham House plc, 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 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
Conduct Risk		
As the wider Gresham House 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.	Training is provided to all employees on the key compliance obligations applicable to them Ongoing compliance monitoring takes place to detect any breaches of group wide policies and processes 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

Principal Risks	Appetite	Mitigation
Breaches Risk		
The Firm is subject to a significant and growing list of regulatory obligations. There is the risk that the Firm 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 Dedicated resources in legal and compliance to ensure effective oversight Periodic training to staff takes place to ensure all staff are aware of applicable regulatory requirements and their obligations in meeting those requirements Professional advisers are engaged to provide advice to the executive team on varying regulatory subjects
Macroeconomic Risk		
This is the risk of an adverse impact on the Firm's revenue and profitability from an economic downturn. Brexit and other risks to the UK economy could negatively impact demand for the Firm's products and services, leading to reduced Assets Under Management (AUM), and revenues.	The Group manages and advises a number of funds, which have varying degrees of macro economic exposure. The mix of exposure is considered as part of the Group's strategy to grow as an asset manager.	The Firm manages investments in uncorrelated asset classes such as Forestry which we expect to still be attractive to investors in the event of an economic downturn. The Firm has limited exposure to European markets as assets are held mostly in the UK. Marketing notifications will be used where possible in applicable European jurisdictions. 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
Investment Risk		
The risk that actual performance by funds managed by the Firm 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.	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 Regular internal and external reporting to ensure any adverse trends in performance are promptly identified and managed 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

Principal Risks	Appetite	Mitigation
People Risk		
The risk of operational or other breaches arising from inadequate or failed human resources	The Firm is committed to equipping and supporting all employees in their day to day functions to ensure they are able to perform their tasks effectively	Recruitment of additional experienced resources at all levels of the organisation. Training to all staff on key operational processes and systems. Annual performance evaluation of all staff members.
Failure of processes and systems		
The risk of significant failures to internal processes and systems leading to operational losses, dissatisfied clients or suppliers, and Reputational damage	The Firm will put in place appropriate systems and controls including robust business continuity arrangements to ensure operational stability and effectiveness	Dedicated forum- the Operations Committee- for addressing operational matters with regular reporting to the Board New recruits are provided with training on the Group's key internal processes as applies to them The Group engages suitably qualified third parties in all outsourcing arrangements and carries out regular due diligence on these third parties.
Cyber risk		
The risk that the Firm's systems are accessed by unauthorised persons and client data is breached.	The Firm will put in place appropriate systems and controls to prevent and minimise the impact of a cyberattack	The Group has upgraded its cyber-defence systems and continues to monitor those systems for any breaches. Dedicated resource in the Chief Technology Officer with oversight and responsibility for the Group's IT security systems. Awareness campaigns have been run with members of staff to inform about cyber security risks and their responsibilities for ensuring security of Group data. The Group has agreements with reputable third parties who support the Group's processes for ensuring the security of the Group's systems.
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 ensures it exceeds minimum levels of liquidity at all times to support working capital requirements. Liquidity forecasts are prepared with adequate measures 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 GHAM 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 Firm is subject to BIPRU requirements for the purposes of the Pillar III disclosures as of 31 December 2018. 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 2018, 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	43,200
Retained Earnings	(427)
Less intangible assets	(35,413)
Core Tier 1 Capital	7,360
Tier 2 Capital	0
Total Capital Resources (X)	7,360
Credit Risk Capital Requirement (A)	843
Market Risk Capital Requirement (B)	0
Fixed Overhead Requirement (C)	1,448
Total Pillar 1 Requirement [D= higher of (A+B) and C]	1,448
Base Capital Requirement (€125k using ECB GBP-EUR rates) (E)	112
Total Capital Requirement [Y= higher of D and E]	1,448
Surplus capital over minimum requirement [X – Y]	5,912

The GHAM Board is therefore comfortable that the Firm is, and has been throughout the financial year, adequately capitalised for Pillar 1 purposes. The Firm held approximately £2.8m 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 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 2018. Credit risk exposures are as summarised in the table below:

	Risk weighting	£
Exposure to rated institutions		
Bank balance	20%	2,795,674
Risk weighted amount		559,135
Other exposures to corporates		
Other debtors	100%	9,977,918
Risk weighted amount		9,977,918
Total credit risk weighted amount		10,537,053
Credit risk requirement (standardised approach) @ 8%		**842,964**

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 (all figures in £'000)	**Number of employees**	**Basic Pay**	**Variable pay**
Senior management	10	1,790	1,070
Other remuneration code staff	28	1,921	405
Total	38	3,711	1,475

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 2018.