PILLAR 3, STEWARDSHIP CODE AND REMUNERATION DISCLOSURE

The Capital Requirements Directive (‘CRD’) and Alternative Investment Fund Management Directive (‘AIFMD’) of the European Union establish a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain.

In the United Kingdom, the CRD and AIFMD have been implemented by the Financial Conduct Authority (‘FCA’) in its regulations through the General Prudential Sourcebook (‘GENPRU’), the Prudential Sourcebook for Banks, Building Societies and Investment Firms (‘BIPRU’) and the Interim Prudential Sourcebook for Investment Business (“IPRU (INV)”).

The FCA framework for the CRD consists of three ‘Pillars’:

- Pillar 1 sets out the minimum capital amount that meets the firm’s credit, market and operational risk capital requirement;
- Pillar 2 requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet pillar 1 requirements and further determine whether it should apply additional capital , processes, strategies or systems to cover any other risks that it may be exposed to; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The AIFMD adds further capital requirements based on the Alternative Investment Fund (‘AIF’) assets under management and professional liability risks.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations.

The Pillar 3 disclosure document has been prepared by Ferox Capital LLP (‘The Firm’) in accordance with the requirements of BIPRU 11 and is verified by the board. Unless otherwise stated, all figures are as at the 31 March financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical when the audited annual accounts are finalised.

We are permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the firm.

In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

Scope and application of the requirements

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a Collective Portfolio Management Investment Firm (‘CPMI’) by the FCA for capital purposes.

It is an agency investment management firm and as such has no trading book exposures.

Although part of a group, the Firm is managed on a “stand-alone” for liquidity purposes and we do not foresee any impediments to the prompt transfer of capital between group entities should the need arise. There are no differences in the basis of consolidation for accounting and prudential purposes.

Risk management

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen the Chief Operating Officer, with the Senior Management team taking overall responsibility for this process and the fundamental risk appetite of the firm. The Compliance officer has responsibility for the implementation and enforcement of the Firm’s risk principles.

Senior Management meets on a regular basis and discusses current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. Senior Management engage in the Firm’s risks though a framework of policy and procedures having regard to the relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The COO has identified that business; operational, market and credit are the main areas of risk to which the Firm is exposed. Annually the Senior Management team formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness.

A formal update on operational matters is provided to a board director on a regular basis. Management accounts demonstrate continued adequacy of the firm's regulatory capital are reviewed on a regular basis.

Appropriate action is taken where risks are identified which fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the firm's mitigating controls.

Business risk

The Firm's revenue is reliant on the performance of the existing funds under management and its ability to launch new funds/obtain new mandates. As such, the risk posed to the firm relates to underperformance resulting in a decline in revenue and adverse market conditions hindering the launch of new funds and ultimately the risk of redemptions from the funds managed by the firm.

This risk is mitigated by the fact that the Firm is not considered to be at risk from the loss of a single major client since the client base is diversified although there could be circumstance in which several large clients were to leave at the same time across all of the funds managed by the Firm and this would have a detrimental effect on the firm. The Firm has shown itself to be well managed and has shown itself to be stable over a 10+ year period.

Operational risk

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks to manage. These relate to systems failure, failure of a third party provider, key man, potential for serious regulatory breaches and market abuse. Appropriate polices are in place to mitigate against these risks, which includes taking out adequate professional indemnity insurance.

Credit risk

The main credit risk to which the Firm is exposed is in respect of its debtors – its assets are all in cash with its various bankers. However, there has not been a history of bad debts and as such the counterparty risk it is required to hold in respect of management fees due is considered to be more than adequate to cover such eventuality.

The Firm has no exposure to trading counterparties (brokers) since this risk rests within the portfolios of the Funds managed. Stress testing is not really relevant given these exposures.

Market risk

Since the Firm holds no trading book positions on its balance sheet, the main market risk it potentially faces relates to fluctuations in the value of its revenues due to movements in currency rates, since certain of the amounts payable to the firm are denominated in currencies other than sterling.

The change in the value of fees due to foreign exchange fluctuations has not previously been material to the Firm. Since the settlement of debtor balances takes place without undue delay, the timing of the amount becoming payable and subsequently being paid is such that it is not considered to present a material risk to the firm.

Professional liability risk

The Firm has a legal responsibility for risks in relation to investors, products & business practices including, but not limited to; loss of documents evidencing title of assets of the AIF; misrepresentations and misleading statements made to the AIF or its investors; acts, errors or omissions; failure by the senior management to establish, implement and maintain appropriate procedures to prevent dishonest, fraudulent or malicious acts; improper valuation of assets and calculation of unit/share prices; and risks in relation to business disruption, system failures, process management. The Firm is aware of, and monitors, a wide range of risks within its business operations and towards its investors. The Firm has in place appropriate internal operational risk policies and procedures to monitor and detect these risks. These procedures and risks are documented, demonstrating how the Firm aims to mitigate these risks. This is reviewed annually.

The firm has in place appropriate coverage of professional indemnity insurance that exceeds the required 0.9%. The policy excess is held in Own Funds.

Liquidity risk

The Firm has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this. The cash position of the firm is monitored by the COO on a monthly basis who would be able to reduce the level of drawings taken from the business and/or provide further capital as required.

The Firm maintains a Liquidity risk policy which formalises this approach.

Regulatory capital

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed.

Our Firm is small with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from management and performance fees receivable from the funds under its management. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk.

The Firm is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required.

As discussed above the firm is a CPMI Firm and as such its capital requirements are the higher of either [(4)] or [the higher of (1) or(2)] Plus (3):

(1) The Funds Under Management Requirement of €125,000 + 0.02% of AIF AUM;
(2) The fixed overhead requirement ('FOR') which is essentially 25% of the firm's operating expenses less certain variable costs.
(3) a PII capital requirement
(4) The sum of the market & credit risk requirements;

For the Funds Under Management Requirement 0.02% is taken on the absolute value of all assets of all funds managed by the firm, including assets acquired through the use of leverage, whereby derivative instruments shall be valued at their market value, including funds where it the firm has delegated the management function but excluding funds that it is managing as a delegate. The FOR is calculated, in accordance with FCA rules, based on the firm's previous years audited expenditure. The Firm has adopted the [simplified] standardised approach to credit and market risk and the above figures have been produced on that basis. The firm is not subject to an operational risk requirement.

It is the Firm's experience that the Fixed Overhead Requirement establishes its capital requirements.

As at 31st March 2016 the firm held regulatory capital resources of £1,813,000. This comprised solely of core Tier 1 capital.

Capital requirement

The Firm's Pillar 1 capital requirement has been determined by reference to the Firm's Fixed Overheads Requirement ('FOR') as referenced in IPRU (INV) 11.3.3A. The requirement is based on the FOR since this exceeds the total of the credit and market risk capital requirements it faces and also exceeds the base capital requirement of €125, 000.

The FOR is based on annual expenses net of variable costs deducted, which include e.g. discretionary bonuses paid to staff which has been deducted. The Firm monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year.

This is monitored by the Chief Operating Officer and reported to senior management on a monthly basis.

As at 31st March 2016, the firm's pillar 1 capital requirement was £1,319,000. It should be noted that the firm's actual minimum capital requirement as a CPMI firm that accounts for the PII capital requirement is £1,371,000.

Satisfaction of capital resources

Since the firm's ICAAP (Pillar 2) process has not identified capital to be held over and above the Pillar 1 requirement, the capital resources detailed above are considered adequate to continue to finance the firm over the next year. No additional capital injections are considered necessary and the firm expects to continue to be profitable.

UK Financial Reporting Council's Stewardship Code

FCA COBS Rule 2.2.3R requires FCA authorised firms to disclose whether they conform to the requirements of the UK Financial Reporting Council's Stewardship Code (the 'Code'). Adherence to the Code is voluntary. The Firm take action in line with its investment objectives where its research of publically available information warrants such action. However, given the nature of our chosen investment strategy, this approach does not include active engagement with UK listed investee companies, nor do we consider that our clients would expect such engagement. Therefore, while the Firm supports the principles of the Code, it does not consider it appropriate to conform to the Code at this time.

Remuneration disclosure

The Firm is authorised and regulated by the Financial Conduct Authority as a CPMI Firm and so, it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA's Handbook. The Remuneration principles cover(s) an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

The Firm's business is to provide investment management services to its funds managed by the Firm (the 'AIF(s)').

Our policy is designed to ensure that we comply with the Remuneration principles and our compensation arrangements:

1. are consistent with and promotes sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest

   The firm considers all conflicts within its conflicts of interest policy and process. This requires the firm to review potential conflicts of interest on a regular basis.

   There is a risk that individuals may act unfairly between clients if their remuneration structure encourages them to favour one fund over another.

   The firm ensures fair treatment of clients by having an allocation policy and ensuring that it adheres to that policy.

   The firm has a gifts and inducement policy to ensure that no undue influence is brought to bear on the trade allocation process.

   The firm has a soft commission and broker assessment process to ensure that the funds receive best execution.

4. are in line with the Firm's business strategy, objectives, values and long-term interests.

Proportionality

Enshrined in the remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by instituting two tests. Firstly, a firm that is 'significant' in terms of its size must disclose quantitative information referred to in BIPRU 11.5.18R at the level of senior personnel. Secondly, that a firm must make disclosure that is appropriate to the size, internal organisation and the nature, scope and complexity of their activities.

The firm is not significant and so makes this disclosure in accordance with the second test (BIPRU 11.5.20R(2)).

Application of the requirements

We are required to disclose certain information on at least an annual basis regarding our Remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the firm. Our disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities.

It is the firm's policy to promote sound and effective risk management and to discourage risk-taking that exceeds the level of tolerated risk of the firm;

As such the firm maintains:

- Strong disclosure practices, which provide investors with the information they need to determine whether to invest in a fund, to monitor their investment and to make a decision whether to redeem their investment, based on the risk profile of the investment strategy;
- Robust valuation policies and procedures to provide for clear and consistent valuations of the investments in the fund's portfolio, with independent oversight provided by the fund's board, third party administrators and independent auditors;
- Comprehensive risk management processes to measure, monitor, report and manage risk, including stress testing of the portfolio and liquidity risk management;
- Sound operational and regulatory systems and controls; and
- A strong culture of compliance, sponsored by Senior Management with specific practices to address conflicts of interest.

Due to the nature of the market, and sensitivity of investors to both risk and performance, the firm has determined that its offering is based on its ability to provide a particular balance between risk and reward. This balance is to be respected in the firm's risk management and remuneration policy.

Supporting business strategy

The remuneration policy is in line with the business strategy, objectives, values and long-term interests of the firm and its investors.

The firm operates a management fee, a performance fee and a high water mark.

This means that it is expected that the investment manager will cover its costs even during poor performance having a sufficient income to be able to look after the assets during adverse market conditions.

The firm considers its wind down process as part of its Internal Capital Adequacy Assessment process to ensure that it would take such steps to protect the assets before it runs out of resources. The performance fees accrue only once the fund makes money for its investors and there is a high water mark so that absolute returns promised are only rewarded when achieved.

In order to achieve principle 1 and 2 the firm is required to attract appropriate talent which creates a balance of people who take risk and those who can manage it. As such the firm needs to provide some flexibility and retain confidentiality in respect of some of the terms it introduces. However, these terms are appropriate and respect the principles in this policy.

Governance - The implementation of the remuneration policy is reviewed, at least annually, subject to independent internal review for compliance with policies and procedures for remuneration adopted by the firm's senior management.

Control Function Independence - Where possible the firm will ensure that control functions are independent from the business units they oversee, have appropriate authority, and are remunerated to attract qualified and experienced staff.

Due to the size, nature and complexity of the firm, it is not appropriate to have a separate independent body with a purpose of overseeing the implementation of its remuneration policy.

Remuneration and Capital - The firm is a CPMI firm which undertakes an annual risk assessment, and Internal Capital Adequacy Assessment Process, reporting to the FCA on its capital position.

Personal Investment Strategies –Is subject to personal account (PA) dealing policy. All personal trading undertaken will be reviewed on a quarterly basis to ensure compliance.

Avoidance of the Remuneration Code - The firm will not pay remuneration through any vehicles or methods that will facilitate the avoidance of the code or policy.

Remuneration Structure

A vesting remuneration structure will be adhered to at the discretion of the Senior Partners, taking into account each performance year of the Firm and the Funds, on a year by year basis. The Remuneration Structure will be reviewed at least annually.

Vesting periods will be 50% at 18 months and the remaining 50% after 36 months for all employees and partners.

The sum of remuneration paid to the investment management advisory business is included in full within the statutory accounts, so no further disclosure is made here.

Aggregate, quantitative information on remuneration, for staff whose actions have a material impact on the risk profile of the firm.

Code Staff	Aggregate compensation expense 2014/2015 (GBP)
Senior Management	6,277,000

Remuneration structures- payments related to early termination

The firm must ensure that payments related to early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure. Existing contractual payments in relation to the termination of employment must be reviewed to ensure they are consistent with the Remuneration Code general requirement.

We may omit required disclosures where we believe that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.