

## Pillar 3 and Remuneration Disclosure

The Capital Requirements Directive ('CRD') of the European Union establishes 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 has 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'), The Interim Prudential Sourcebook for Investment Business ('IPRU (INV)').

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

This Pillar 3 disclosure document has been prepared by Findlay Park Partners LLP (the 'Firm') in accordance with the requirements of BIPRU 11 and is verified by senior management. Unless otherwise stated, all figures are as at the 31 July 2019.

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 BIPRU Firm by the FCA for capital purposes. It is an agency investment management firm and as such has no trading book exposures.

The Firm is not a member of a group and so is not required to prepare consolidated reporting for 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 by the Compliance team with the Senior Management team taking overall responsibility for this process and the fundamental risk appetite of the Firm. The Compliance team has responsibility for the implementation and enforcement of the Firm's risk principles.

Senior Management meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. Senior Management engage in the Firm's risk management through reviewing and implementing a framework of policies and procedures having regard to the relevant laws, standards, principles and rules (including FCA principles and rules) with the aim of operating a defined and transparent risk management framework. These policies and procedures are updated as required when the Senior Management team formally review the risks, controls and other risk mitigation arrangements annually and assess their effectiveness.

A formal update on operational matters is provided to the Senior Management team on a regular basis, usually monthly. Management accounts demonstrate continued adequacy of the Firm's regulatory capital and are reviewed on a monthly 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.

## **Firm risks**

The Senior Management team has identified that business, reputational, operational, credit, market and liquidity are the main areas of risk to which the Firm is exposed.

## **Business risk**

The Firm's revenue is reliant on the performance of the existing funds under management and, to a lesser extent, its ability to launch new funds. 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 fund managed by the Firm.

This risk is mitigated by:

- The Firm's investment team applying a consistent investment philosophy with a proven track record of producing long-term outperformance across a variety of market conditions.
- The use of tactical investment themes which tilt the portfolio towards the best opportunities in the market.
- A rigorous investment process and team investment approach that enables high quality analysis and continuity of coverage.
- A CIO and Investment Committee structure which provides oversight and ensures efficiency of process.
- A team of talented portfolio managers and analysts who all embrace the Firm's investment philosophy.
- An ownership structure which is aligned with the interests of our investors.

## Reputational risk

These include:

- how poor performance can affect its ability to generate profits.
- the effect on its financial position should one or more of its key fund managers leave the Firm.
- adverse financial impact should the Firm lose some of its largest customers.
- how poor customer services can affect its financial position.

This risk is mitigated by:

- Findlay Park Funds PLC's Board of Directors meets quarterly to review, amongst other matters, the performance of the Investment Manager. This process involves close scrutiny of the Firm's activities over the period, the securities held and performance of the fund in absolute and relative terms.
- Investment philosophy and business strategy which is aligned with the interests of our investors.
- Mitigation of its Operational Risks, as outlined below, reduces the likelihood of a Reputation Risk event.

## Operational risk

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate operational 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:

- Regulatory breaches.
- Failure to identify and prevent financial crime related losses.
- Trade processing, dealing, valuation and accounting errors.
- Business continuity plan failure including system failures.
- Cyber-crime or data loss/breaches.
- Failure to implement and adhere to legal and regulatory requirements.
- Failure to act in the best interest of the Firm's clients.
- Failure of personnel to understand the risk culture of the Firm.
- Failure of Senior Management Controls.

Appropriate policies are in place to mitigate against these risks, which include taking out adequate professional indemnity insurance.

## **Credit risk**

The Firm is exposed to credit risk in respect of its investment management fees billed and cash held on deposit.

The credit exposure linked to the Firm's investment management clients is limited. Management fees are drawn monthly from the fund managed. The Firm considers that there is little risk of default by its clients. All bank accounts are held with large international credit institutions.

Given the nature of the Firm's exposures, no specific policy for hedging and mitigating credit risk is in place. The Firm uses the simplified standardised approach detailed in BIPRU 3.5.5 of the FCA Handbook when calculating risk weighted exposures of 1.6% (Cash in Bank) and 8% in respect of its other assets.

## **Market risk**

Market risk is the risk of loss arising from fluctuations in the value of assets or income. The Firm takes no market risk as its monthly receivables are billed in the Firm's functional currency.

## **Liquidity risk**

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario.

The Firm retains an amount it considers suitable for providing liquidity to meet its working capital requirements under normal business conditions. The Firm has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits it holds. Additionally, it has historically been the case that all management fee debtors are settled promptly, thus ensuring further liquidity resources are available to the Firm on a timely basis. The cash position of the Firm is monitored by the Financial Controller on a regular basis.

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.

The main features of the Firm's capital resources for regulatory purposes are as follows:

	<b>Jul-19</b>
	£'000
<b><u>Tier I Capital</u></b>	
Share capital	5,218
Intangible assets	(935)
Audited reserves	
<b>Own funds/Liquid capital</b>	<b>4,283</b>
<b><u>Capital Adequacy</u></b>	
<b>Base Capital Resources Requirement</b>	46
<i>(EUR 50,000 in GBP at spot FX rate)</i>	<i>0.91110</i>
Credit Risk Capital requirement	853
Market Risk Capital requirement	0
Fixed Overhead requirement	3,676
<i>(25% of audited annual fixed expenditure)</i>	
<b>Total Variable Capital requirement</b>	<b>3,676</b>
<b>The greater of Base Capital and Variable Capital</b>	<b>3,676</b>
<b>Surplus of Liquid Capital</b>	<b>607</b>

## Capital requirement

The Firm's Pillar 1 capital requirement has been determined by reference to the Firm's Fixed Overheads Requirement ('FOR') and calculated in accordance with Article 95 of the Capital Requirements Regulation. 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 its base capital requirement of €50,000.

The FOR is based on annual expenses net of variable costs deducted, which include Fund administrative and custodian expenses and discretionary bonuses paid to staff and associated National Insurance payments. 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 Financial Controller and reported to Senior Management on a monthly basis.

## Remuneration disclosure

The Firm is authorised and regulated by the FCA as a BIPRU Firm and, so, it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Codes located in the SYSC Sourcebook of the FCA's Handbook.

The Remuneration Code ('the RemCode') cover(s) an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

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

- Are consistent with and promotes sound and effective risk management.
- Do not encourage excessive risk taking.
- Are in line with the Firm's business strategy, objectives, values and long-term interests.

## **Proportionality**

Enshrined in the European 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' (that is to say has relevant total assets <£50bn) 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.

Summary of information on the decision-making process used for determining the Firm's remuneration policy:

- The Firm's policy has been agreed by Senior Management in line with the Remuneration principles laid down by the FCA.
- The Firm's policy will be reviewed as part of annual process and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment.
- The Firm's ability to pay bonus is based on the performance of the Firm overall which, in turn, is based on the management and performance fees paid by the fund it manages. These fees are calculated by the third party administrators appointed by the fund.

The aggregate remuneration for remuneration code staff for the period ending 31 March 2019 is £78,365,098.

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.

We have made no omissions on the grounds of data protection.

## Important Information

This document has been prepared by Findlay Park Partners LLP (“**FPP**”), the investment manager of Findlay Park American Fund, a sub-fund of Findlay Park Funds Plc (“**Fund**”).

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