

ISAM Funds (UK) Limited Pillar 3 Disclosure and Policy for a Full Scope UK AIFM (Collective Portfolio Management Investment Firm) as at 31 March 2017

Prepared post audit - November 2017

INTRODUCTION

Regulatory Context

The Pillar 3 disclosure of ISAM Funds (UK) Limited (“ISAM” or “the Firm”)¹ is set out below as required by the FCA’s “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (BIPRU) specifically [BIPRU 11.3.3R](#). This is a requirement which stems from the UK’s CRD III implementing Regulations which represented the European Union’s application of the Basel Capital Accord. The Firm is no longer formally subject to CRD but remains subject to the UK’s implementation Regulations of CRD III. The regulatory aim of the disclosures is to improve market discipline.

Frequency

ISAM will be making Pillar 3 disclosures at least annually. The disclosures will be as at the Accounting Reference Date (“ARD”).

Media and Location

The disclosure will be published on the Firm’s website.

Verification

The information contained in this document has not been audited by the Firm’s external auditors, as this is not a requirement, and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

Materiality

The Firm regards information as material in disclosures if its omission or misstatement could 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 this Statement.

Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm’s investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, the Firm shall disclose such and explain the grounds why it has not been disclosed

¹ The firm has undergone a change of legal status and associated name change. As at 31 March 2017, the firm was known as ISAM (Europe) LLP. ISAM Funds (UK) Limited has been authorised and regulated by the Financial Conduct Authority since 30 June 2017.

SUMMARY

The CRD, to which ISAM remains subject as a consequence of the UK CRDIII implementing Regulations, has three pillars; Pillar 1 deals with minimum capital requirements; Pillar 2 deals with the Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by the Firm and the Supervisory Review and Evaluation Process through which the Firm and Regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces and; Pillar 3 deals with public disclosure of risk management policies, capital resources and capital requirements.

The regulatory aim of the disclosure is to improve market discipline.

The Firm is a Full Scope UK AIFM of non-EEA AIFs and also undertakes additional activities which result in the Firm being a BIPRU firm. It acts solely as agent, so the main protection to its customers is provided through client money and asset arrangements. The Firm's greatest risks have been identified as business and operational risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk which include, the strategies and processes to manage those risks; the structure and organisation of the relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; and the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Firm has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

A number of key operations are outsourced by the Firm's clients, typically the AIFs the Firm is an AIFM to, to third party providers such as administrators reducing the Firm's exposure to operational risk. The Firm has an operational risk framework (described below) in place to mitigate operational risk. The Firm's main exposure to credit risk is the risk that management and performance fees cannot be collected and, therefore, credit risk is considered low. The Firm holds all cash and performance fee balances with banks assigned high credit ratings.

Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to foreign currency exchange rate risk and hence to any assets held on the Firm's Balance Sheet denominated in a foreign currency. The Firm's Reporting Currency is GBP and all foreign currency assets are converted into GBP where possible on a regular basis.

BACKGROUND ON THE FIRM

Background

ISAM is incorporated in the UK and is authorised and regulated by the FCA as an AIFM of non-EEA AIFs. In addition the Firm undertakes MiFID activities which give it the categorisation of a 'BIPRU Firm'.

Up to 30 June 2017 the Firm was part of a member of a UK Consolidation Group with an EEA parent.

The Firm is a BIPRU Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#)).

BIPRU 11.5.1

DISCLOSURE: Risk Management Objectives and Policies

Risk Management Objective

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

Governance Framework

The Operating Committee is the Governing Body of the Firm and has the daily management and oversight responsibility. It meets on a monthly basis.

The Operating Committee is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Operating Committee decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Senior Management is accountable to the Operating Committee for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.

Risk Framework

Risk within the Firm is managed by use of the following:

BIPRU 11.5.4

DISCLOSURE: Compliance with BIPRU 3, BIPRU 4, BIPRU 7 and the Overall Pillar 2 Rule

BIPRU 3 (Credit Risk)

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component, the Firm has adopted the Standardised approach ([BIPRU 3.4](#)) and the Simplified method of calculating risk weights ([BIPRU 3.5](#)).

Please note: As per GENPRU 2.1.46R, the Credit Risk Capital Requirement is only required to be calculated in respect of our designated investment business. This does not include our activities as an AIFM.

Credit Risk Calculation

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	£259,807
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
Total		£259,807

	Rule	Exposure	Risk Weight	Risk Weighted Exposure Amount
National Government Bodies	BIPRU 3.4.2	£0	0%	£0
Banks etc long-term	BIPRU 3.4.36	£0	50%	£0
Banks etc short-term	BIPRU 3.4.39	£1,233,148	20%	£246,630
Exposure to Corporates/Debtors	BIPRU 3.4.52	£2,806,323	100%	£2,806,323
Past due item	BIPRU 3.4.96	£0	100%	£0
Fixed assets	BIPRU 3.4.127	£194,632	100%	£194,632
Accrued Investment management fees	BIPRU 3.4.128	£0	100%	£0
Total		£4,234,103		£3,247,585
Credit Risk Capital Component			8% of risk weighted exposure	£259,807

BIPRU 4 (Advanced Credit Risk Approach)

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

BIPRU 7 (Market Risk)

The Firm has Non-Trading Book potential exposure only ([BIPRU 7.4](#), [7.5](#)).

Overall Pillar 2 Rule

The Firm has adopted the "Pillar 1 plus" "Structured" approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

The ICAAP assessment is reviewed by the Compliance Committee and amended, where necessary, on an annual basis or when a material change to the business occurs. The Compliance Committee presents the ICAAP document to the Operating Committee of the Firm which reviews and endorses the risk management objective annually or when a material change to the business occurs at the same time as reviewing and signing off the ICAAP document.

BIPRU 11.5.8

DISCLOSURE: Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the risk that investment management fees cannot be collected from clients. It holds all cash balances with Banks assigned high credit ratings. Consequently risk of past due or impaired exposures is minimal. A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

BIPRU 11.5.12

DISCLOSURE: Market Risk

Market risk is the risk of loss arising from adverse movements in the level or volatility of market prices of securities held by the Firm. The Firm does not deal as principal and does not hold any material foreign currency exposures, consequently the Pillar 1 market risk component is largely not applicable.

BIPRU 11.5.3

DISCLOSURE: Capital Resources

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#)). Tier 1 Capital comprises of LLP Members', Partners Capital and Audited Reserves.

As a Collective Portfolio Management Investment Firm the Firm is subject to the capital requirements set out in IPRU(INV) Chapter 11 and also BIPRU/GENPRU. The Firm has the following capital resources:-

Tier 1 Capital/Initial Capital	£2,368,000
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Total Tier 1 & 2/Own Funds	£0
Tier 3 Capital	£0
Total Capital (GENPRU)	£2,368,000

BIPRU 11.5.5

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R (3).

BIPRU 11.5.6

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R (3) .

BIPRU 11.5.7

This disclosure is not required as the Firm does not have a Trading Book.

BIPRU 11.5.9

This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under [BIPRU 11.5.8R \(9\)](#).

BIPRU 11.5.10

DISCLOSURE: Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach

This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights ([BIPRU 3.5](#)).

BIPRU 11.5.11

DISCLOSURE: Firms calculating Risk Weighted Exposure Amounts using the IRB Approach

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by [BIPRU 11.5.4R\(3\)](#).

BIPRU 11.5.15

DISCLOSURE: Non-Trading Book Exposures in Equities

This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities.

BIPRU 11.5.16

DISCLOSURE: Exposures to Interest Rate Risk in the Non-Trading Book

Although the Firm has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations.

BIPRU 11.5.17

DISCLOSURE: Securitisation

This disclosure is not required as the Firm does not Securitise its assets.

BIPRU 11.5.18

DISCLOSURE: Remuneration

The Financial Operating Committee is responsible for the Firm's remuneration policy.

All variable remuneration is adjusted in line with capital and liquidity requirements.

Aggregate Quantitative Remuneration by Senior Management and other Remuneration Code Staff (BIPRU 11.5.18(7))

Type of Remuneration Code Staff	Total Remuneration
Senior Management (SIF)	£2,772,000
Totals	£2,772,000