

ISAM Funds (UK) Limited Pillar 3 Disclosure and Policy for a Full Scope UK AIFM (Collective Portfolio Management Investment Firm) as at 31 March 2018

Prepared post audit - August 2018

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 11.3.3 R](#). 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, and more frequently if required under BIPRU 11.4.4 R. The disclosures will be as at the Accounting Reference Date (“ARD”), which is 31 March 2018.

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 underwent a change of legal status and associated name change during 2017. 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 MiFID “top-up” activities, which result in the Firm being a Collective Portfolio Management Investment (“CPMI”) firm, and therefore subject to the BIPRU rules. 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.

Although the Firm’s clients may outsource a number of key operations, the Firm itself does not currently have any outsourcing arrangements in place. 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 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 ISAM Funds (UK) Board (the "**Board**") is the Governing Body of the Firm and has the daily management and oversight responsibility. It meets on a quarterly basis.

The Board 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 Board 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 Board 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

The Firm's Risk Framework requires that the Firm consider the key risks relating to or arising from its business model and activities on a regular basis, and assesses the mitigating factors and controls in place in respect of these risks. Key risks and their associated mitigation and controls are subject to regular review by the Firm's Board, and are also considered and documented as part of the Firm's ICAAP.

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

Credit risk capital component
Counterparty risk capital component
Concentration risk capital component

Total

Rule

BIPRU 3.2
BIPRU 13 & 14
BIPRU 10

Capital Component

£218,336
£0
£0

£218,336

	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	£1,982,168	20%	£396,433
Exposure to Corporates/Debtors	BIPRU 3.4.52	£2,248,694	100%	£2,248,694
Past due item	BIPRU 3.4.96	£0	100%	£0
Fixed assets	BIPRU 3.4.127	£84,450	100%	£84,450
Accrued Investment management fees	BIPRU 3.4.128	£0	100%	£0
Total		£4,315,312		£2,729,578
Credit Risk Capital Component	8% of risk weighted exposure			£218,366

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 Share Capital (£881k) and Audited Reserves (£1,203k).

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	£2,084,000
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Total Tier 1 & 2/Own Funds	£2,084,000
Tier 3 Capital	£0
Total Capital (GENPRU)	£2,084,000

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 11.5.8

DISCLOSURE: Credit Risk and Dilution Risk

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 11.5.13

DISCLOSURE: Use of VaR Model for Calculation of Market Risk Capital Requirement

This disclosure is not required as the Firm does not calculate its market risk capital requirement using a VaR model

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 Firm must comply with the remuneration rules as set out in Article 14 of the Alternative Investment Fund Managers Directive (“AIFMD”) and SYSC 19B of the FCA Handbook (“the AIFM Remuneration Code”). The purpose of these Remuneration Codes is to ensure that firms have risk focused remuneration policies, which are consistent with and promote effective risk management and do not expose themselves to excessive risk. The Firm has reviewed all existing employment contracts to ensure they comply with the Codes.

The Board of the Firm, which is comprised of the directors of the AIFM, in its supervisory function, adopts and periodically reviews the general principles of the remuneration policy and is responsible for its implementation.

The Remuneration Codes can (subject to certain conditions being met) be applied in a proportionate way. As such senior management has determined that it is not proportionate for the Firm to apply the following detailed rules in setting the Firm's Remuneration Policy:

- SYSC 19B 1.17 – Retained units, shares and other instruments;
- SYSC 19B.1.18 – Deferral; and
- SYSC 19B.1.19, 19B 1.20 – Performance adjustment.

All variable remuneration is not based solely on the financial performance of the individual. Senior management also considers the individual's overall (non-financial) performance and contribution to the Firm and the Firm's overall results. The performance of the individual is assessed over the entire year. Variable remuneration is also adjusted where necessary to take account of the Firm's overall capital and liquidity requirements.

Code Staff are identified in accordance with the AIFM Remuneration Code (Senior Management Arrangements, Systems and Controls ("SYSC") 19B.1.3R of the FCA Handbook) which establishes qualitative criteria to identify categories of staff whose professional activities have a material impact on the firm's risk profile. These categories broadly include the relevant Board of Directors, senior management, senior control function staff and other key risk takers. The Firm has briefed Code Staff on the implications of being designated as such in the context of the proportionate approach that the Firm has adopted to applying the requirements of the Remuneration Code. At least annually, the Firm notifies Code Staff of their status and the implications as well as the appropriate practices for Code Staff.

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

The firm is required to disclose quantitative remuneration information for its Code Staff population in a manner that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities:

Type of Remuneration Code Staff	Total Remuneration
Senior Management (SIF)	£3,197,000
Totals	£3,197,000