ISAM Funds (UK) Limited
Pillar 3 Disclosure

For the year ended 31 March 2019

Last updated December 2019

1. Overview

Introduction and scope

This document sets out the Pillar 3 disclosures of ISAM Funds (UK) Limited ("ISAM" or "the Firm") as at 31 March 2019. ISAM is authorised and regulated by the Financial Conduct Authority ("FCA") as a Full-Scope UK AIFM, with MiFID "top-up" permissions; hence, it is a Collective Portfolio Management Investment ("CPMI") Firm.

ISAM is subject to the rules set out in the FCA's General Prudential Sourcebook ("GENPRU") and Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"). These rules implement in the United Kingdom the European Union Capital Requirements Directive III ("CRD III") which sets out a framework for capital requirements in three pillars:

- **Pillar 1** sets **minimum capital requirements** that firms must meet for credit, market and operational risk. These comprise: base capital resources requirements; credit risk and market risk capital requirements; and the fixed overhead requirement.
- **Pillar 2** requires that firms undertake an overall assessment of their capital adequacy, taking into account all risks to which the firm is exposed and whether additional capital should be held to cover risks not adequately covered by Pillar 1 requirements. This is achieved through the **Internal Capital Adequacy Assessment Process ("ICAAP")** and the FCA's **Supervisory Review and Evaluation Process ("SREP")**.
- **Pillar 3** complements Pillars 1 and 2 and improves **market discipline** by requiring firms to disclose information on their capital resources and requirements, risk exposures and their risk management framework. The detailed Pillar 3 disclosure requirements are set out in **BIPRU 11.3.3 R**.

The **European Union Alternative Investment Fund Managers Directive ("AIFMD")** sets out further capital requirements based on the alternative investment fund assets under management and professional liability risks. These capital requirements are implemented in the UK in the FCA's Interim Prudential sourcebook for **Investment Businesses ("IPRU-INV")**.

Frequency

ISAM makes Pillar 3 disclosures annually or more frequently in the event of any material change to the Firm's risk profile and capital position. The disclosures will be as at the Accounting Reference Date ("ARD").

Verification, Media and Location

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 judgment 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.

Firm Background

The Firm is incorporated in England and is authorised and regulated by the FCA as a Full-Scope UK AIFM, with MiFID "top-up" permissions; hence, it is a CPMI Firm. The Firm does not engage in proprietary trading and does not hold client money.

2. Risk Management Framework & Governance

The ISAM Funds (UK) Board (the "Board") is the Governing Body of the Firm and oversees the running of its business and investment operations. The Board meets on a quarterly basis. The Firm's Directors consist of the two Managing Directors, the Head of Finance and the General Counsel - Head of Legal and Compliance.

The Board is responsible for the Firm's risk management framework and is accountable for the oversight of the risk management process.

In pursuing its strategy, ISAM has to accept, tolerate or be exposed to a certain level of risk. It is also necessary, however, for the Firm to ensure that the amount of risk taken is within acceptable boundaries and that these are commensurate with its financial strength and consistent with its strategy. The Board approves the Firm's risk appetite, which sets out how much and the types of risk that are appropriate for the Firm to take in pursuing its strategy and objectives.

In addition, the Board ensures that the Firm has implemented an effective, ongoing process to identify, monitor and measure the Firm's risks. The Board implements and maintains a robust governance structure and apportionment of responsibilities and control environment so that risks are actively managed to a level that is consistent with the Firm's risk appetite. The Board is responsible for ensuring that the Firm has adequate capital and liquidity.

The Board is assisted in its consideration and management of risk by a number of committees. The key committees for this purpose are the ISAM Compliance and Risk Committee, the ISAM Systematic Trend Investment Committee and the ISAM Systematic Trading and Execution Committee.

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. The Board places strong emphasis on the embedding of a culture of strong governance and risk management and expects senior management and all employees to uphold this culture and bring genuine accountability and challenge through all aspects of the Firm's business.

The Risk Management and Compliance functions act as the second line of defence, providing independent monitoring of the Firm's risks and independent challenge to the first-line business managers, who are the primary owners of the risks faced by the Firm. Ownership of each risk is assigned in the Firm's risk register. The Head of Risk

Management reports directly to the Firm's Managing Directors; the Chief Compliance Officer reports into the General Counsel - Head of Legal and Compliance, who in turn reports directly to the Firm's Managing Directors.

3. Principal Risks

The most significant risks faced by the Firm are identified in the annual ICAAP process and through a Risk and Control Self-Assessment ("RCSA") process. The RCSA is carried out at least annually with significant input from the first line business. The risks are documented in a Risk Register, which is maintained by the Risk function.

The most significant risks are summarised below.

Strategic/Business Risk

Strategic/Business Risk is the risk of loss to the Firm arising from changes in its business, including the risk that the Firm may not be able to execute its business plan and its desired strategy.

The Firm's business is ultimately based on a single underlying investment strategy, i.e. systematic medium-term trend following, in effect a medium-term 'time series momentum' factor. There is a risk that patterns of market price movements (specifically lack of trends and rangebound markets) could result in large losses over a lengthy period for the Funds and managed accounts, triggering heavy redemptions. There could also be a systemic loss of faith in the broader sector, regardless of performance relative to peers. The impact would be reduced AUM and revenues through fee income, reducing the ability of ISAM SM to meet the Firm's costs. While large and lengthy drawdowns and significant redemptions in the past have had an adverse but manageable effect, there is no certainty that this would result in the same outcome in the future.

Operational Risk

Operational risk is the risk that the Firm could sustain losses through inadequate or failed internal processes, people, systems and external events. This includes the risk of losses resulting from a cyber-attack that breached the Firm's defences against such attacks. It also includes the risk of losses from legal claims or from breaches of regulations. The Firm mitigates operational risks through design and implementation of strong processes and effective internal controls. Operational risk is inherent in the business and these internal control systems are designed to manage risks to the level of the Board's risk appetite rather than eliminate the possibility of all losses due to operational risk.

Reputational Risk

Reputational Risk is the risk of loss resulting from damage to the Firm's reputation that could lead to negative publicity, costly litigation, a decline in the investor base or the exit of key staff members and therefore directly or indirectly to a loss of revenue.

The Firm's reputation with investors (as a trusted manager of their money) and with employees as a trusted employer is a key asset of the Firm. Serious damage to the Firm's reputation would have a material adverse impact on its business. Reputational risk is, however, a second order risk which would most likely occur as a consequence of the crystallisation of another principal risk, e.g. a significant operational risk event.

Group Risk

Group Risk is the risk that the financial position of the Firm may be adversely affected its relationships (financial or non-financial) with other entities in the Group or by risks which may affect the financial position of the whole Group (e.g. reputational contagion).

The Firm is part of a wider Group and some of the risks highlighted above arise or may arise through its relationships with other companies in the Group. For example, damage to the Firm's reputation could result from the contagion effects of an event which initially occurred at another subsidiary of International Standard Asset Management ("ISAM

Cayman"). The immediate impact of loss of assets under management and related revenues (due to any combination of negative investment performance and redemptions) would be felt at ISAM Systematic Management ("ISAM SM"). The impact on the Firm would be indirect through the impact on the ability of ISAM SM to continue to pay the fees due to the Firm under the investment management agreement.

Regulatory Risk

Regulatory Risk is defined here as the risk that a change in laws and regulations will negatively impact the Firm in terms of restriction of business activities. Risks around failures to adhere to regulations are covered under Operational Risk

The Firm operates in an ever-changing regulatory environment and obtains legal opinion on the activities it carries out in order to ensure appropriate regulatory licenses are obtained in relevant jurisdictions. However, it is possible that changes take place which materially affect the ability to execute the current business model due to changes in regulation.

Other Risks

The Firm is also exposed to Market, Credit and Liquidity risk, although these are less significant risks for the Firm.

Market Risk *is the risk of loss from fluctuations in values of, or income from, assets or in interest or exchange rates.* The Firm does not maintain a trading book and Market Risk arises only on its non-sterling assets and liabilities and is relatively immaterial.

Credit Risk *is the risk of loss from the failure of a counterparty to perform its contractual obligations.* It is also negligible given the nature of the Firm's credit exposures (mainly cash at bank and short-term intercompany debtors).

Liquidity Risk *is the risk that the firm, although solvent, either does not have sufficient available resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.* This risk is considered very low.

4. Capital Adequacy

Sufficient capital is held by the Firm to ensure it maintains an adequate buffer over the higher of the Pillar 1 and the Pillar 2 capital requirements. In addition, the capital requirement must be sufficient to cover the cost of an orderly wind down.

Capital Resources

The table below summarises the capital resources of the Firm for regulatory purposes at 31 March 2019.

ISAM Funds (UK) Limited (£'000)	31 March 2019
Called Up Share Capital	1
Capital Contribution Reserve	880
Retained Earnings (Audited)	1,921
Common Equity Tier 1 Capital (CET1)	2,802
Tier 2 Capital	-
Tier 3 Capital	-
Own Funds	2,802

Capital Requirements

As a BIPRU firm, the regulatory capital requirement is calculated as the highest of the Pillar 1 and Pillar 2 capital requirements and the cost to close the Firm in the event of an orderly wind-down of its business. The Pillar 1 requirements at 31 March 2019 are higher than both the Pillar 2 and wind-down requirements. They are also higher than the AIFMD requirements under IPRU-INV. The Pillar 1 requirement, therefore, determines the regulatory capital surplus of the Firm at 31 March 2019. The regulatory capital position is summarised in the table below. Additional disclosures required under BIPRU 11.5 are provided in the sections which follow.

The Pillar 1 variable capital requirement is calculated as the highest of:

- the Base Capital Resources Requirement;
- the sum of the Credit and Market Risk Capital Requirements; and
- the Fixed Overhead Requirement. This is equal to 25% of the Firm's relevant fixed expenditure calculated in accordance with GENPRU 2.1.54 R.

Capital Requirement (£'000)	BIPRU/GENPRU	IPRU-INV
A. Fixed Overhead Requirement (FOR)	1,482	1,482
B. Credit Risk Requirement	120	•
C. Market Risk Requirement	31	•
D. Base Capital Resources (€125k)	108	108
E. Funds Under Management Requirement	•	544
Higher of [A], [B+C], [D] and [E]	1,482	1,482
Pillar 1 Capital Requirement	**1,482**	

ISAM Funds (UK) Limited (£'000)	31 March 2019
Own Funds	2,802
Regulatory Capital Requirement	1,482
Capital Surplus	**1,320**
Solvency Ratio	**189%**

Credit Risk

Credit Risk is the risk of loss to the Firm resulting from a failure of a counterparty, customer or debtor of the Firm failing to meet its financial obligations to the Firm when they fall due. The Firm is exposed to Credit Risk mainly in respect of bank deposits and intercompany debtors from other Group companies.

The Firm has adopted the Standardised approach (BIPRU 3.4) and the Simplified method of calculating risk weights (BIPRU 3.5) for calculating its Pillar 1 Credit Risk capital requirements.

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. There were no past due or impaired items at 31 March 2019.

Details of the calculation are shown in the table below.

Credit and Counterparty Risk (£'000)	*BIPRU Reference*	Exposure Value	Risk Weight	Risk Weighted Exposure	Own Funds Requirement (8%)
Governments & Central Banks	*3.4.5*	-	0%	-	-
Cash in Hand	*3.4.129*	0.5	0%	-	-
Institutions - Cash or Cash Equivalents	*3.4.39*	2,246	20%	449	36
Institutions - Long Term (>1 Year)	*3.4.36*	-	50%	-	-
Corporates / Debtors	*3.4.52*	944	100%	944	75
Other Items		87	100%	87	7
Fixed Assets	*3.4.127*	16	100%	16	1
Total		3,293		1,496	120

Market Risk

Market Risk is the risk of loss from fluctuations in values of, or income from, assets or in interest or exchange rates. The Firm does not maintain a trading book and Market Risk arises only on its non-GBP assets and liabilities.

Details of the Pillar 1 market risk capital requirements calculation are shown in the table below.

Market Risk Requirement (£'000)	Exposure
USD Cash Balance (Barclays)	390
USD Prepayments	4
Less USD Denominated Liabilities	(1)
Net USD Balance Sheet Exposure	393
Market Risk Requirement (8%) (BIPRU 7.5.1)	31

ICAAP and Pillar 2 Capital Requirements

The ICAAP is the means by which the Firm makes its own assessment of the amount of capital (Pillar 2 requirement) that is required to support the current and future risks in its business. The ICAAP document is prepared on an annual basis or more frequently if there is a material change to the risk profile of the business. The document is prepared by the Risk function with significant input from senior management and is approved by the Board.

The Firm uses the following approaches in its own assessment of the amount of capital required:

- the **Pillar 2 Operational Risk** capital requirement is based on scenario analysis supported by internal expert judgement and external and internal loss data;

- the **Pillar 2 Market Risk** capital requirement is based on an assessment of the impact of the 99.5 percentile of historical GBP-USD exchange rate moves, over a 1 year rolling window using daily data from 2005 onwards;
- the **Pillar 2 Credit Risk** capital requirement is based on an assessment of the probability of default of each Credit Risk exposure, taking into account the duration of that exposure;
- the **Pillar 2 Business Risk** capital requirement is based on stress scenarios of the Firm's profit and loss account over a 3-year horizon and taking into account extreme but plausible stress circumstances.

4. Remuneration

The Firm's Board is responsible for the design and implementation of the Firm's remuneration policy.

The Firm's Code Staff comprise the senior management and certain other individuals whose actions have a material impact on the risk profile of the Firm.

Remuneration is made up of fixed pay (i.e. salary and benefits) and variable pay (i.e. bonus). Variable remuneration is designed to reflect each individual's performance with respect to their objectives and the performance of the Firm as a whole, over a 12-month period.

A proportion of the variable pay for Code Staff is deferred and amounts are payable over pre-defined periods contingent on the Firm's performance and the employee remaining with the Firm for the period.

The Firm has one business area and the aggregate remuneration of Code Staff for the year ended 31 March 2019 was £5,093k.